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REPORT OF THE COMMITTEE ON CO-OPERATION IN MADRAS 1939-40

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G.O. No. 1461, 21st June 1940

Co-operative Societies—Committee on Co-operation—Report—Published.

READ—the following papers :—

G.O. No. 357, Development, dated 10th February 1939.

From the Chairman, Committee on Co-operation, dated 15th May 1940, No. Spl. 11/40.

Order—No. 1461, Development, dated 21st June 1940.

The Government direct that the Report of the Committee on Co-operation in Madras be published.

2. The Government desire to express their cordial thanks to the Chairman and to the members of the Committee for their valuable work.

(By order of His Excellency the Governor)

C. P. KARUNAKARA MENON,
Secretary to Government.

To the Registrar of Co-operative Societies.
,, Director of Agriculture.
,, Director of Industries and Commerce.
,, Director of Fisheries.
,, Commissioner of Labour.
,, Public Department.
,, Chairman of the Committee on Co-operation.
,, Members of the Committee.
,, Superintendent, Government Press.

Press.

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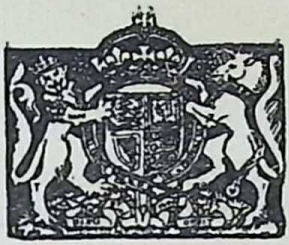

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Appointment of Special Officer for preliminary work and issue of questionnaire.

2. Sri K. Subrahmanyam, Deputy Registrar of Co-operative Societies, was appointed Special Deputy Registrar to prepare material for the Committee and he entered on his duties on the 15th September 1938. He drew up a comprehensive questionnaire on the basis of the terms of reference tentatively approved by Government and with due regard to the various suggestions received by the Registrar of Co-operative Societies from time to time from co-operators and co-operative institutions. The questionnaire after scrutiny by the Registrar and some of the leading co-operators was circulated by Government to all important co-operative institutions, individuals interested in the movement and the heads of relevant departments. Copies of the questionnaire were also given to several individuals who applied for them. The Government invited replies to the questionnaire by the 15th December 1938, but as the time was found to be insufficient, it was extended to the 15th January 1939, though the replies continued to be received even long thereafter. In all about 700 copies of the questionnaire were issued and 169 replies were received.

The Deputy Registrar on Special Duty arranged the replies according to topics or questions so that all the views of individuals or institutions on any one question or topic were brought together and exhibited in one place. He also prepared comprehensive notes on each important question, giving a descriptive, historical, or statistical account of the several aspects of the question involved; wherever necessary, the existing practice in the important British Indian Provinces was indicated. The written replies to the questionnaire with the Secretary's notes were printed in three large volumes and supplied to the members of the Committee.

Constitution of the Committee.

3. The appointment of the Committee was made in G.O. No. 357, Development, dated the 10th February 1939. The Committee consisted of the following gentlemen :—

(1) Sir T. Vijayaraghava Achariyar (*Chairman*).
(2) Sri T. A. Ramalingam Chettiyar (*Vice-Chairman*).
(3) Abdur Rahman Khan Sahib Bahadur, M.L.A.
(4) Sri K. Bhashyam, B.A., B.L., M.L.A.
(5) Sri Diwan Bahadur K. Deivasikamani Mudaliyar, M.L.C.
(6) Sri Rao Bahadur M. Giriappa.
(7) Sri Kala Venkata Rao, M.L.A.
(8) Sri A. Karunakara Menon, M.L.A.
(9) Sri V. Kurmayya, M.L.A.
(10) Sri K. A. Nachiyappa Gounder, M.L.A.
(11) Sri B. Pattabhi Sitaramayya.
(12) Hon'ble Sri V. Ramadas Pantulu.
(13) Sri Diwan Bahadur C. S. Ratnasabhapati Mudaliyar.
(14) Sri N. Satyanarayana.

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(15) Sri M. Shiva Rao.
(16) Sri J. Sivashanmugham Pillai, M.L.A.
(17) Sri R. Suryanarayana Rao.
(18) Dr. P. J. Thomas.
(19) Sri P. N. S. Iyer, * B.A., G.D.A., R.A.
(20) Sri B. S. Murthi, † M.L.A.
(21) S. A. Venkataraman, Esq., I.C.S., Registrar of Co-operative Societies.

Sri K. Subrahmanyam, Deputy Registrar on Special Duty, was appointed Secretary to the Committee.

The Committee was permitted to co-opt as members the Director of Agriculture and the Director of Industries and Commerce whenever required.

Terms of reference.

4. The following were the terms of reference to the Committee :—

(1) to examine whether any change in the present structure of the financing system is necessary with particular reference to proposals such as the formation of multi-purpose societies and of taluk banking unions and direct financing by the provincial bank and, if so, to make recommendations;

(2) to recommend the steps by which credit can be made available to agriculturists through societies and land mortgage banks more quickly and also more cheaply;

(3) to examine and recommend for what purposes and periods central banks and societies should lend to agriculturists and how the long-term needs of the ryots in areas not served by land mortgage banks are to be met;

(4) to suggest ways for the disposal of lands purchased by central banks and societies and for the recovery of overdues in societies and to make recommendations;

(5) to examine whether central and urban banks should undertake commercial transactions and, if so, to what extent; and to examine whether the central banks should make advances on the pledge of gold, agricultural produce and industrial products;

(6) to examine whether central banks should own godowns to facilitate the work of primary societies which are unable to own godowns;

(7) to examine the adequacy of the security offered for loans to the loan and sale societies and to suggest further safeguards if necessary;

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* Sri P. N. S. Iyer was appointed as a member of the Committee in April 1939 (in G.O. Ms. No. 1097, Development, dated 27th April 1939).

† Sri B. S. Murthi was appointed as a member of the Committee in October 1939 (in G.O. Ms. No. 2662, Development, dated 30th October 1939).

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(8) to suggest ways and means to encourage the formation and development of production and marketing societies, the conditions under which they should work and the help to be rendered to them with special reference to subsidiary occupations and the processing of agricultural produce;

(9) to suggest ways and means to improve the supervision of societies and to make recommendations;

(10) to suggest ways and means to co-ordinate the activities of the Agriculture, Industries and Co-operative Departments;

(11) to examine the system obtaining for affording facilities for co-operative education and propaganda and to make recommendations for the reorganization of the agencies engaged in this work; and to examine the proposal for a College of Co-operation and advise on the suggestion that the college should also give instruction in Commerce and be called " College of Co-operation and Commerce; "

(12) to suggest measures to encourage and stimulate thrift and savings among small agriculturists and artisans and the arrangements and facilities necessary to enable them to deposit their savings;

(13) to examine whether the present arrangements for the audit of societies are satisfactory and to suggest improvements, if any; and

(14) to examine the organization of the Co-operative Department and such other matters relating to the working of co-operative societies and rural welfare on co-operative lines, as the Committee may consider necessary, and to make recommendations.

The Government had under consideration a number of draft amendments to the Madras Co-operative Societies Act, 1932, which were found necessary as a result of experience gained in the working of the Act. A draft of these amendments was forwarded to the Committee, and it was requested to examine the amendments and to offer its views thereon.

5. The Committee met for the first time at the office of the Registrar of Co-operative Societies on the 18th April 1939. The Hon'ble Sri V. V. Giri, Bar.-at-Law, the Minister-in-charge, opened the proceedings. We decided that, in view of the fact that practically almost all the members were in touch with the conditions of the working of the co-operative institutions in the Province, it was not necessary for the Committee as such to go on tour. We then discussed questions of procedure. We agreed to dispense with sub-committees and oral examination of witnesses except on a few particular matters in which specialist opinion was desired or on which the written evidence was silent.

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At an early stage of our proceedings we had an interview with three of the Hon'ble Ministers in order to elicit their personal views on some of the subjects under our consideration. We examined Mr. K. G. Ambegaokar, I.C.S., Officer-in-charge of the Agricultural Credit Department of the Reserve Bank of India on matters generally dealt with in the bulletins issued by the Agricultural Credit Department of the Reserve Bank of India, particularly agricultual credit societies, banking unions and central banks, and on supplemental notes furnished by it on some of the important points in the questionnaire issued by the Government.

At our meeting in September 1939, we heard the representatives of the Madras Provincial Co-operative Non-Official Employees' Association on matters relating to the conditions of their service. Sri M. R. Ramaswami Sivan, retired Principal of the Agricultural College, Coimbatore, gave us his views on agricultural colonization in relation to the unemployment of the educated classes. The Director of Industries and Commerce participated in our discussions on co-operative organization for hand-loom weaving and cottage industries. The Director of Agriculture and the Provincial Marketing Officer helped us with their views on co-operative marketing and sale societies. We also heard the views of the representatives of the Society of Auditors, Madras. We did not consider the oral examination of any more witnesses necessary.

We sat seven times in Madras for a period of 61 days in all and at Coimbatore for a consecutive period of 10 days. While at Coimbatore, we took the opportunity of visiting some of the co-operative institutions and of studying their working. During intervals between one sitting and another, the Chairman toured some of the important districts in the Province in order to study the working of the several types of co-operative institutions which came under our examination.

6. From the outset we threw open our meetings to the Press, except on three occasions when we discussed confidential questions. The reports in the daily newspapers had the useful effect of arousing public interest in the questions under discussion. Evidence of the keenness with which people in the districts followed our proceedings was forthcoming in abundance when the Chairman went out on tour. The decisions arrived at were in the first instance purely provisional; we derived assistance from intelligent and well-informed criticism from outside the Committee before we came to our final conclusions.

7. During our sittings we considered the various aspects of the movement with special reference to the terms of reference and the questionnaire issued by the Government. On many of the important subjects, the members put their views in the form of notes so as to focus discussion on definite issues. After discussion of all points of view, we recorded tentative conclusions. During our

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penultimate sittings in November, we reviewed our tentative decisions and recorded our final recommendations. We also considered the draft amendments to the Madras Co-operative Societies Act in the light of our final decisions and made necessary alterations or modifications.

Thereafter, the drafting of our report was taken up and completed. We met finally on the 23rd April 1940 to consider and approve the draft report and amendments to the Act and concluded our labours on the 30th April.

8. It will be observed that the procedure adopted in this inquiry departed from what may be said to be the orthodox procedure in the matter of the framing of the questionnaire, in the collection of evidence and in the subsequent investigation and sifting of it. We feel that the departure was economical of time and money. We had a very wide field to cover. The questionnaire and terms of reference which were elastic invited us to discuss not only the difficulties under which the movement had fallen by reason of the great economic depression, but also set before us a wider objective. Our task was to make recommendations to broaden the base of the movement and widen its sphere of activities and enable it to become a powerful instrument of rural betterment and of rural prosperity. The procedure adopted seems to us well devised to secure the object Government had before them.

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CHAPTER II.—HISTORICAL RETROSPECT AND A GENERAL SURVEY.

Plan of the chapter.

9. The Co-operative movement in India is of recent origin. It is just 35 years old and we have had doubts if it is necessary to recapitulate the story of its beginnings as much of it must be within the recollection of those interested in it. In view, however, of the fact that we have been expressly charged with the duty of giving a "new orientation" to the movement, some account of its past history is probably called for. We propose, therefore, to refer briefly in this chapter to the problem with which the Government was faced, the manner in which they proceeded to tackle it and the initial aims which they had in view, to describe the origin and progress of the movement in the Province and to give an account of the working of the more important of co-operative institutions.

10. In the words of the Government of India,* "One of the most difficult problems with which the small agriculturist is everywhere confronted is to obtain the money which is necessary for his operations at a reasonable rate of interest. This is a state of affairs by no means peculiar to India. The petty agriculturist of Europe is for the most part financed by borrowed capital and there, too, the money-lender takes advantage of the exigencies of the cultivator to demand exorbitant terms. In India, however, the problem is aggravated by the fact that Indian rates of interest are to some extent survivals from times when the security which the agriculturist had to offer was of far smaller value than at present, and also by the fact that the money-lender has not been slow to take advantage of the unwillingness of the civil courts to go behind the terms of a written bond.

"The desirability of providing the peasant with some means of obtaining the capital required for agricultural operations otherwise than at usurious rates of interest has at various times engaged the attention of the Government of India and of all who are interested in promoting the welfare of the agricultural classes."

The need for agricultural credit.

11. That capital is an essential pre-requisite for agricultural production is an axiom in economics. As Sir Frederick Nicholson stated: "The lesson of universal agrarian history is that an essential of agriculture is credit. Neither the nature of the land-tenures nor the position of agriculture affects the one great fact that agriculturists must borrow . . . This necessity is due to the fact that an agriculturist's capital is locked up in his lands and

* Resolution of Government of India, No. 1-63-3, dated Simla, the 29th April 1904.

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stock . . . Hence credit is not necessarily objectionable, nor is borrowing necessarily a sign of weakness." When the ryot needs capital for application to the land, he does not usually have it. . . " Ideally, of course, he should have accumulated savings. Actually, as a rule, he has none. Sometimes . . . this is because he is actually too poor to save. Usually, it is because he has never been taught the value of thrift, nor have convenient facilities been available to him for accumulating the small sums which he could save. Therefore, he has to borrow."

Unsuitability of commercial banks for dealing with agricultural credit.*

12. The normal source of credit, namely, the ordinary commercial bank, is closed to him. Save in a very small number of countries where exceptional circumstances have arisen, ordinary banks cannot take an interest in loans to the farming class. Firstly, agriculture is a peculiar form of activity not comparable in any way with trade or industry, partly because of the nature and the length of the operations involved and partly because of the rate of yield on the invested capital. Agriculture is a biological industry influenced greatly by climatic conditions, whereas industrial processes usually are little affected by them. It is subject to the vagaries of weather against which the farming class is for the most part powerless. It works under conditions of uncertainty, and with many it is not so much a profession as a mode of living. Consequently, the agriculturists have a bad reputation for dilatory and unpunctual habit in the matter of repayments. Secondly, agricultural operations cover a longer period than commercial or industrial operations and require accommodation for a period corresponding to the period of cultivation, 9, 12 or 18 months. Loans for land improvements or purchase of cattle require a still longer period. Ordinary banks hold most of their funds at call and as a rule, they discount the bills presented to them and usually grant loans for not more than three months from funds deposited with them. Thirdly, ordinary banks are situated at a considerable distance from villages which renders communication difficult and negotiations unnecessarily expensive and dilatory. The lack of proximity between the ordinary bank and the agriculturist in the village prevents the former from accepting the kind of personal security, which the latter usually offers, and as for landed security, the expense of investigating questions like title and valuation would be prohibitive. The ordinary banks feel reluctant to keep a mass of small accounts for modest transactions at a moderate rate of interest, which are unprofitable. Fourthly, the absence of business accounts in agriculture makes ordinary banks chary of dealing with ryots and makes it difficult for agriculturists to satisfy the formalities required in dealing with ordinary banks. For these reasons,

* Report on the systems of agricultural credit and insurance by M. Louis Tardy. See also the Statutory Report (1937) of the Reserve Bank of India.

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therefore, ordinary banks are generally unwilling to grant the agricultural class adequate credit at reasonable rates of interest and for a long-enough period.

The limitation of the State as supplier of agricultural credit.

13. The State may be an unselfish lender, but when it ventures to distribute credit direct to small agriculturists, its help is often ineffective or misdirected. When credit is supplied by Government, political pressure is likely to be brought on it for suspensions and remissions. It is true that the Governments in India recognized the policy of making advances on favourable terms to agriculturists by two legislative enactments in 1883 and 1884—the Land Improvements Loans Act and the Agriculturists' Loans Act. The object of these two Acts is to advance State loans to agriculturists for land improvements and for the purchase of agricultural necessaries such as seed and cattle at moderate rates of interest on the security of their land. The loans made under these Acts have been of help to the more substantial class of cultivators who can produce the necessary security, but they have left practically untouched the lowest strata of the agricultural community. In fact, the smallness of the amounts advanced by Governments when compared with the total finance required by agriculture has been due to the fact that the loans under the Agriculturists' Loans Act have mostly been advanced to enable the agriculturists to tide over emergencies and are not intended to supply his normal finance. Further, the system suffers from the serious defect that it does not carry with it any educative influence. The Government can act only as a provider of emergency capital, not as the regular supplier of normal finance.

Unsoundness of money-lender's credit.

14. The bulk of agricultural credit was and is supplied by the money-lender. It cannot be expected that the money-lender who takes trouble and risks and who has to make his living could lend at a low rate of interest. He has, in many instances, made an unfair use of his superior intelligence. Speculating as he does in dishonest borrowers, he insures himself against loss by making the honest borrower pay. It is true that he undoubtedly serves a necessary function in the scheme of rural credit. But his terms are often usurious and the results of borrowing are of little profit to the borrower. The money-lender wants a profitable investment for his money and he is not concerned as to whether the loan which the borrower takes is for a productive or unproductive purpose and whether the borrower will be the better or the poorer for having had it. Money-lenders are generally painted in very dark colours, greedy, unscrupulous and fraudulent, and the clutch of the money-lender is held to be universal. The money-lender is said to work deliberately to get the ryot in his power, to tempt him to borrow, to avoid him when he is ready to pay, to press him when he is in need and to exploit him in every way. When in his power, the ryot

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is his slave and must keep him in good humour.* Towards the close of the last century the more obvious features of the situation presented themselves in the form of usury, land grabbing, etc., on the part of the money-lending classes, while the agricultural classes either hoarded their savings or owing to thriftlessness and indebtedness, showed themselves unable to withstand bad seasons. It is this problem which, as we have stated, the Government in India had to grapple with and to proceed in right earnest to solve.

Mr. (Sir Frederick) Nicholson's investigations (1895–1897).

15. Even as early as 1892, Mr. (later Sir) F. Nicholson, a Madras Civilian, was placed on special duty by the Madras Government for the purpose of enquiring into the possibility of introducing into the Madras Presidency a system of agricultural or other land banks. Mr. Nicholson's enquiries disclosed " that the load of debt borne by the Madras ryot is heavy, that its interest is high, and that it has been incurred with but a minimum result in profit," and his conclusions were : " On the whole, indebtedness is general and its burden heavy : on individuals and classes it is particularly so ; the remedies lie in systematic and stimulative forms of banking which shall economically educate while assisting the ryot and in the spread of general education of the ordinary sort with, as frequently advocated, special attention to the facts of rural economy."

Of the alternative agencies best adapted for rural credit in this Presidency, Mr. Nicholson came to the conclusion, that what was chiefly required for the credit work of the Madras districts was ' small, local, locally worked institutions on the lines of the European village institutions ' because they would satisfy the postulates of proximity, security, facility, excite local confidence and consequently draw in local capital, work cheaply, almost gratuitously and thus provide cheap credit, influence borrowers towards the true use of credit and watch the utilization of loans in accordance with contract, exercise educative influence in matters of thrift, association and self-help and develop high forms both of individual capacity, of public life and of national character.'

The (Sir Edward) Law Committee.

16. Mr. Nicholson's report was reviewed in 1899 by the Madras Government which expressed the opinion that the question of rural credit in the Madras Presidency was not one of urgency. They thought that if a few rural banks were started on strictly Raiffeisen line and their working watched for a few years, they might then be in a position to make recommendations. On receipt of Mr. Nicholson's report by the Government of India, the opinions of local Governments were invited as to the possibility and advisability of action by Government. Their answers were considered in June 1901 by a Committee under the presidency of the Hon'ble Sir Edward Law and it was on the report of this Committee that

* Land and Agricultural Banks by Sir F. Nicholson.

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proposals for action first assumed a form sufficiently definite to allow of detailed discussions. These proposals were referred to local Governments for criticism.

The Co-operative Credit Societies Act X of 1904.

17. In the meantime, the Indian Famine Commission of 1901 (of which Mr. Nicholson was a member) recommended the introduction of mutual credit associations. On consideration of their recommendations, it became evident that no real advance was possible without legislation and that the Companies Act with its 256 sections and elaborate provisions was wholly unsuited to societies of the kind it was desired to encourage. Special legislation was, therefore, undertaken by the Government of India, and the Co-operative Credit Societies Act (Act X of 1904) was passed.

Initial aims.

18. Act X of 1904 was thus designed to assist agricultural credit and to foster agricultural credit societies as distinct from agricultural banks. The Government made it clear that *the object of the societies contemplated by the Act was far more special and limited, that they would be small and simple credit societies for small and simple folk with simple needs and requiring small sums only and that their most useful form of business would be small loans for short periods with prompt recoveries.* The Act was framed with a view to simplicity and elasticity, the aim being to lay down merely general outlines and to leave the details to be filled in gradually on the lines which the experience of failure or success and the natural development of the societies might indicate as is best suited to each part of the country. The Government of India informed the local Governments that until further experience had been gained, the regulative interference of Government should be strictly limited to essentials so as to leave spontaneous growth unhampered.

Main features of Co-operative Credit Societies Act X of 1904.

19. The main provisions of the Act may briefly be stated. A society registered under the Act consisted of ten or more persons above 18 years of age living in the same locality. Societies were divided into two classes rural and urban, four-fifths of the members of a rural society being agriculturists and the same proportion in an urban society being non-agriculturists. In a rural society the liability of members for debts incurred by the society was, as a rule, unlimited. In both classes of societies there was to be a reserve fund. In a rural society all profits went into the reserve fund, provided that when the fund had attained a certain proportion to the total liabilities, further profits, not exceeding three-fourths of the total, might be distributed among the members by way of bonus. In an urban society there was no restriction with regard to the payment of profits except that at least a fourth of the annual profit was to be credited to the reserve fund. Societies were subject to audit and inspection by officers deputed by Government,

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and were exempt from certain legal imposts such as the income-tax, stamp duties and registration fees, and also from the share capital of any member being seized by a court of law for payment of debts.

Co-operative Societies Act II of 1912.

20. There was an almost phenomenal growth in the number and activities of societies between the years 1906 and 1911. The Act of 1904 was found insufficient to meet the growing needs of the movement. In the first place, the Act, as it stood, gave no legal protection to societies formed for purposes other than credit. A few societies sprang up here and there for such objects as marketing and production for which no room could be found within the framework of the Act. In the second place, the growth in the number of societies and the difficulty experienced in raising capital locally gave rise to the question of creating some form of central organization to supervise local societies and to provide them with sufficient capital. These defects were remedied by the Co-operative Credit Societies Act II of 1912 which gave legal recognition for the first time to productive and distributive societies and to various forms of central organization. The new Act abolished the old distinction between rural and urban societies and substituted for it the classification of unlimited and limited liability societies.

Origin of the movement in Madras.

21. Immediately after the passing of the Co-operative Credit Societies Act of 1904, the late Sir P. Rajagopalachariyar was appointed the first Registrar of Co-operative Societies in Madras. The first purely co-operative village credit society, viz., the Tirur society in the Chingleput district was registered on 30th August 1904. On 30th June 1907, the number of societies had grown to 63 with 6,439 members : on 30th June 1912, the number of societies rose to 972 and of members to 66,156 : on 30th June 1915, the corresponding figures were 1,600 (societies) and 118,726 (members). Of these 1,446 were agricultural credit societies : the remainder were nearly all urban credit societies. The working capital of all kinds of societies was Rs. 142·10 lakhs. Progress in the beginning was very slow, more attention being rightly paid to the selection of the area and men to run the societies than to mere numbers. The Registrar personally supervised and inspected every society and sanctioned all loans. He also personally trained his small staff.

The Madras Presidency was peculiarly congenial to the birth of urban credit societies, in that for many years, *nidhis* or indigenous financing associations, had been in existence in the towns. The first purely co-operative society formed to provide credit to an urban area was the Conjeeveram Town Bank in the Chingleput district, which was formed in October 1904. Each succeeding year saw the birth of a few more of these societies.

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The first non-credit society formed in the Presidency was the Triplicane Urban Co-operative Society, registered in 1905; it was soon followed by similar societies at Coimbatore and Madura. Their object was the provision of the more important necessaries of life to their members. A weavers' union was formed at Conjeeveram in 1905, which purchased raw material for its members and arranged for the sale of their manufactured products; it also introduced improved methods of weaving.

For the first few years after the birth of the movement, Government helped to finance it. But this soon ceased. To assist in financing co-operative societies, the Madras Central Urban Bank consisting of only individual shareholders, was registered in October 1905 as a feeder bank, whose function was to finance co-operative societies throughout the Presidency. In 1909, the formation of district central banks was found necessary, and two such banks were constituted in that year. They were generally identical in principle and working with the Madras Central Urban Bank; their object was to finance rural and urban societies; their shareholders were all individuals and the activities of each were confined to one revenue district. From 1912 onwards, central banks began to be formed in one district after another and by 1915, they began to admit both individuals and societies as their members.

Alongside of the increase in the number of societies, the question of their supervision became a matter of importance, as it was not possible for the Registrar and his staff to supervise them. The central banks also could not supervise the societies satisfactorily as they were scattered over the large area of a district. The first local co-operative supervising union of societies was registered in 1910. During the year 1913–14, the Provincial Co-operative Union was registered with the object of assisting co-operative work.

Progress up to 1938–39.

22. The following statement shows the general progress of the co-operative movement in this Province from 1905–06 to 1938–39 :—

Year.	Number of societies of all kinds.	Number of members.	Paid-up share capital.	Reserve fund.	Total working capital of all banks and societies.
(1)	(2)	(3)	(4)	(5)	(6)
			RS. LAKHS.	RS. LAKHS.	RS. LAKHS.
1904–05 ..	..	..	..	..	..
1905–06 ..	27	2,733	0·31	0·006	1·07
1906–07 ..	63	6,439	0·76	0·03	4·41
1907–08 ..	101	9,537	1·22	0·13	7·74
1908–09 ..	180	15,597	2·09	0·29	18·19
1909–10 ..	377	30,085	3·63	0·55	33·19
1910–11 ..	596	44,102	4·85	1·85	49·15
1911–12 ..	972	66,156	7·52	2·97	74·64
1912–13 ..	1,078	82,713	9·74	4·43	95·41
1913–14 ..	1,333	100,537	11·75	6·19	123·21
1914–15 ..	1,600	118,726	13·68	8·24	142·10
1915–16 ..	1,800	137,498	16·11	8·50	168·88

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Year.	Number of societies of all kinds.	Number of members.	Paid-up share capital.	Reserve fund.	Total working capital of all banks and societies.
(1)	(2)	(3)	(4)	(5)	(6)
			Rs. Lakhs.	Rs. Lakhs.	Rs. Lakhs.
1916–17 ..	2,216	163,121	20·49	9·62	204·99
1917–18 ..	2,644	191,041	26·13	11·88	234·92
1918–19 ..	3,676	244,297	34·70	14·65	305·21
1919–20 ..	5,027	329,886	50·24	17·45	393·00
1920–21 ..	6,289	398,062	64·87	20·77	490·35
1921–22 ..	7,389	461,002	79·86	21·94	601·11
1922–23 ..	8,443	530,291	95·42	26·94	711·59
1923–24 ..	9,785	616,628	114·49	38·35	839·27
1924–25 ..	11,141	690,740	135·43	46·85	986·57
1925–26 ..	11,973	748,783	153·32	56·50	1,132·80
1926–27 ..	13,357	830,522	175·48	68·54	1,334·34
1927–28 ..	14,510	898,186	197·29	69·62	1,522·98
1928–29 ..	15,086	940,784	214·80	84·28	1,651·53
1929–30 ..	15,238	974,999	233·68	98·51	1,799·36
1930–31 ..	15,042	981,100	243·15	112·58	1,800·52
1931–32 ..	14,540	..	237·42	122·11	1,699·98
1932–33 ..	13,956	.. *	232·49	134·30	1,734·63
1933–34 ..	13,634	..	224·77	143·64	1,632·05
1934–35 ..	13,453	880,328	227·19	152·18	1,671·84
1935–36 ..	13,330	903,870	229·33	160·60	1,763·80
1936–37 ..	12,927	897,428	227·84	166·18	1,851·93
1937–38 ..	13,138	948,177	235·35	173·17	2,005·65
1938–39 ..	13,759	1,041,355	246·84	178·07	2,270·91

Four distinct phases of the movement.

23. From the above statement and the graph attached, it may be seen that there have been four distinct phases in the development of the movement in the Province. The first period from 1904 to 1917–18 was a period of slow growth. The second phase was from the year 1918–19 to 1929–30. This period coincided with a steady rise in the level of agricultural prices and the consequent agricultural prosperity in the wake of the Great European War: from the co-operative standpoint, this period is characterized by a rapid perhaps too rapid expansion of the co-operative movement: the number of societies of all types increased from 3,676 to 15,238, and membership from 244,297 to 974,999. This period also saw the appointment by the Government of a Committee on Co-operation (1927) to examine the progress made in the co-operative movement in the Province to enquire into the condition of the movement and to suggest lines of (future) development. This was followed by the passing of the Madras Co-operative Societies Act (VI of 1932) to remedy the defects noticed in Act II of 1912 (India). A separate legal enactment for regulating the working and sound development of land mortgage banks was passed in 1934 as supplementary to the Madras Co-operative Societies Act of 1932.

The third phase from 1929–30 to 1936–37 witnessed the world-wide economic crisis and a crash in agricultural prices. Co-operatively, this period saw the liquidation of many bad or moribund

* Figures relating to number of members for the years 1931–32 to 1933–34 are not available in the departmental annual reports.

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PROGRESS OF THE MOVEMENT IN THE MADRAS PROVINCE

Scale 3 Inches = 10 Years

——— Reserve fund in lakhs — — — Scale 1 Inch = Rupees 40 Lakhs

— — — — Share capital in lakhs — — — Scale 1 Inch = Rupees 40 Lakhs

— . — . — Total No. of societies of all types — — — Scale 1 Inch = 2000

— .. — .. — Working capital in lakhs — Scale 1 Inch = Rupees 200 Lakhs

— ... — ... — Total No. of members — — — Scale 1 Inch = 1 Lakh

YEARS.

1905-06

1910-11

1915-16

1920-21

1925-26

1930-31

1935-36

1938-39

1940-41

2733 6439 9537 180 15997 3·63 30085 1·85 377 596 4·85 44102 2·97 7·52 7·64 9·74 66156 4·43 9·41 11·75 972 82713 6·19 1078 1333 100537 8·24 13·68 23·21 1600 118726 8·50 16·11 27·10 1800 137498 168·88 9·62 20·49 2216 163121 204·99 11·88 26·13 2644 191041 234·92 14·65 34·70 3676 244297 305·21 17·45 50·24 5027 329886 394·24 20·77 64·87 6289 398062 490·35 21·94 79·86 7389 461002 601·11 26·04 95·42 8443 530291 711·59 38·35 114·49 9785 616628 839·27 46·85 135·43 11141 690740 986·57 56·50 153·32 11973 748783 1132·80 68·54 175·48 13357 830522 1334·34 69·62 197·29 14510 898186 1522·98 84·28 214·80 15086 940784 1651·53 98·51 233·68 15238 974999 1799·36 112·58 243·15 15042 981100 1800·52 122·11 237·42 14540 1699·98 134·30 232·49 13956 1734·63 143·64 224·77 13634 1632·05 152·18 227·19 13453 1671·84 880328 160·60 229·33 13330 903870 1763·80 166·18 227·84 12927 897428 1851·93 173·07 235·35 13138 948177 2005·65 178·07 246·84 13759 1041355 2270·91

Reserve fund

Working capital

No. of societies

Share capital

Rupees in Lakhs

Membership curve

Rupees in Lakhs

Working capital

Membership curve

Rupees in Lakhs

Reserve fund

Share capital

No. of societies

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societies as a result of the policy of consolidation and reconstruction of societies. The number of societies and membership showed a progressive decline. From a financial standpoint, however, there was a steady rise in working capital (except for two years). In spite of the mortality in the number of societies and other depressing features that became prominent in the working of co-operative organizations such as overdues, increase in the number of moribund or bad societies, liquidations, etc., this period witnessed the beginning and expansion of land mortgage banking and of other types of societies. By 30th June 1925, there were only 2 land mortgage banks that were registered; on 30th June 1937, there were 93 primary land mortgage banks headed by the Madras Central Land Mortgage Bank which was started in 1929. Co-operative sale societies received an impetus. There were three such societies on 30th June 1924 and on 30th June 1937, the societies numbered 111. There was also an expansion of other non-credit organizations such as weavers' societies, milk-supply societies, etc.

During the last two years 1937–38 and 1938–39, it would appear as though we have turned the corner and signs of improvement have begun to manifest themselves both in the number of societies and membership.

24. Of the 13,759 societies existing on 30th June 1939, 13,558 had commenced work and of these 10,926 were agricultural credit societies with 567,279 members. The remainder (2,833) consisted of the following :—

Societies.	Number.
Madras Provincial Co-operative Bank	1
Central Land Mortgage Bank	1
Central banks	30
Land mortgage banks	112
Non-agricultural credit societies	1,131
Supervising unions	252
Provincial co-operative union	1
Language federations	2
Non-credit societies.	
Sale and marketing societies	138
Sugarcane growers' societies	15
Milk supply societies and unions	57
Egg production and poultry farming and marketing societies	13
Kudimaramat and irrigation	13
Agricultural improvements and Demonstration societies	40
Land Reclamation	10
Colonization societies	3
Consolidation of holdings	16
Tenants' (field labourers) societies	291
Cattle breeding societies	5
Hand pounded and rice production societies	5
Honey-wax supply and bee-keeping societies	3
Better Living societies	56
Coir workers, basket-makers and other cottage industries societies	33
Weavers' societies	174
Spinners' societies	5
Khaddar production	3
Khadi sale societies	2
Consumers' societies (Stores)	85
School (Stationery) Stores	94
Central Stationery Stores	1
Printing societies	3
Labour contract societies	22
Fishermen societies	28
Building societies	126
Insurance and Benefit Fund societies	2
Thrift societies	19
Others	41

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25. The following statement shows the percentage of the population affected by the co-operative movement in each of the major British Indian Provinces as on 30th June 1937 :—

Province.	Population (Millions).*	Percentage of population touched by the movement.
Madras	48·1	8·54
Bombay	19·3	14·82
Bengal	52·3	7·78
Bihar	34.6	2·82
United Provinces	50·3	2·59
Punjab	25·5	16·33
Burma	14·1	2·66
Central Provinces and Berar ..	16·4	2·35

* Estimated on the basis of a constant rate (geometric) of increase.

26. We will now proceed with a description of the more important types of co-operative organizations in the Province.

Primary Agricultural Credit Societies.

27. Agricultural credit societies are by far the most widespread type of co-operative organization in Madras, as elsewhere in India; on 30th June 1939 they numbered 10,784 out of a total of 13,759 co-operative societies of all kinds. Their number on 30th June 1915 was only 1,438.

General features.

It is not necessary for us to give a detailed account of the constitution, management and working of these societies. Full particulars are available in Chapters II to IV of the Madras Co-operative Manual, Volume I. These societies are formed on the model of the Raiffeisen societies and embody in their organization and working the fundamental features which characterize the Raiffeisen societies—compact area of operations, unlimited liability, loans to members for productive purposes, gratuitous services, limitation of dividend, etc. Of these, the contributory unlimited liability has been the basic principle; credit is obtained on the joint security of the members joining the society.

Constitution and management.

The membership of a society is generally confined to the residents of one village on the recognized Raiffeisen principle that their area of operations should be small and compact to ensure mutual knowledge and watchfulness amongst members which are essential for their success and for the minimizing of the risks of unlimited liability. The management is democratic, based on the principle of "one member, one vote." The general body of members is the ultimate authority in all matters concerning the society and elects a committee popularly known as the 'Panchayat' in whom the executive administration is vested. From among the panchayatdars, a president and a secretary are elected

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The president is also the ex officio treasurer. The executive work of the society is carried on by the secretary subject to the control of the president. The president is the person to sue and to be sued on behalf of the society. The panchayat works gratuitously, a small remuneration being paid to the secretary who attends to clerical or collection work. Most of the village societies have no other premises than the president's or secretary's home, and there is no external sign of their existence beyond perhaps an occasional name—board.

Objects.

The objects of such a society as embodied in the model by-laws may be briefly stated as follows :—

(1) to borrow funds from members or others to be utilized for loans to members for useful purposes;

(2) to act as the agent for the joint purchase of the agricultural, domestic and other requirements of its members and for the joint sale of their produce;

(3) to purchase all implements, machinery or animals for hire to its members;

(4) to disseminate knowledge of the latest improvements in agriculture, handicrafts and weaving, and encourage its members to adopt them; and

(5) generally to encourage thrift, self-help and co-operation among the members.

It may be seen that the by-laws of these societies provide not only for borrowing funds to be utilized for loans to members but also for the carrying on of other equally important accessory functions such as the joint purchase of members' requirements, agricultural and domestic, or the joint sale of their produce; the societies are also intended to act as agencies for propagating the latest agricultural improvements and promoting village handicrafts; they are expected, too, to be centres of moral and educational influence. But in actual practice very little has been done to promote objects other than the dispensing of credit.

The attempt at attaining the first object has always dominated the working of these societies. Notwithstanding the provision of more than one object in their by-laws, the supply of credit to members has in most cases been the sole service rendered by the societies, partly because the demand for credit has been insistent from agriculturist members and partly because it is easy in practice for the honorary panchayats to manage credit transactions rather than the difficult business of joint purchase or sale, etc. In borrowing money no small success has been achieved by village societies. On the 30th June 1939 the total amount of loans outstanding against members of all primary agricultural credit societies was Rs. 353·52 lakhs; the corresponding amount on 30th June 1915 was Rs. 57·73 lakhs.

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As regards the second object during the year 1938–39, the societies bought on behalf of their members, agricultural and other requirements to the value of Rs. 6,681 and sold on behalf of their members agricultural produce to the value of Rs. 1,166. This activity has been confined only to a few societies.

The societies scarcely attend to objects (3) and (4).

As regards the encouragement of thirft, etc., the following figures speak for themselves :—

Number of agricultural credit societies on 30th June 1939 (excluding 142 societies not started)	10,784

	RS. LAKHS.
Share capital	53·36
Deposits from members	8·69
Loans and deposits of non-members ..	17·60
Loans from other societies	288·71
Loans from Government	3·16
Reserve Fund	78·75
Other funds	22·74
Total working capital on 30th June 1939	473·01

Resources.

Share capital and deposits from members (which represent the savings of members) constituted nearly 62·05 lakhs of the total working capital of about 473 lakhs, the percentage roughly being 13. The reserve funds of societies may be held to represent some form of collective savings of members and work out to 16·6 per cent of the total working capital.

Rates of interest.

The village credit societies obtain the bulk of their capital from central financing institutions known as central banks. They now borrow from central banks generally at rates varying from 5 to 6 per cent and lend to their members at rates varying from $6\frac{1}{4}$ to $7\frac{1}{2}$ per cent. The working margins range from about $1\frac{1}{4}$ to $1\frac{1}{2}$ per cent. Penal interest for default was recently done away with. The interest rates in societies in the Province compare favourably with those prevailing in other Provinces as may be seen from the following statement :—

Bombay	$9\frac{3}{8}$
Bengal	$12\frac{1}{2}$
Punjab	$9\frac{3}{8}$
Central Provinces	9
United Provinces	15

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Grant of loans to members, security period, etc.

The by-laws require that loans should be given to members only for useful purposes and prescribe the purposes for which they may be given. The loan transactions which societies conduct are modest when considered one by one but in the bulk they are numerous. The loans outstanding against their members as on 30th June 1939 were Rs. 353·52 lakhs while the loans advanced by them during the year 1938–39 totalled Rs. 157·47 lakhs.

The maximum borrowing capacity of agricultural credit societies on unlimited liability basis is fixed in the by-laws arbitrarily at an amount not exceeding one-eighth of the total value of the net assets in the property statement. The maximum, too, of individual loans is fixed in the by-laws though what loan an individual member can be given subject to the maximum should always be determined with reference to the purpose of the loan, character and sobriety of the member, his repaying power, etc.

Loans are given on the personal security of one or two members. Theoretically societies are expected to make personal loans on the security, not of the borrower's property, but mainly of his character, his power to work and his ability to save. In actual practice, however, mortgages of immovable properties are often taken. Loans may also be given on the pledge of standing crops up to 40 per cent of the estimated value of the crops to be harvested in 30 days and produce of members up to 60 per cent of their estimated value in the case of commercial crops and up to 75–80 per cent in the case of food crops.

The main point of co-operative credit, however, is that the loan given should be employed for a really productive purpose and repaid out of the increased return from such use. A rural credit society has a distinct advantage—herein lies, too, its superiority to other organized institutions—in its proximity to those whose needs it is intended to satisfy; its panchayat is expected to lend with caution, to appreciate the needs of its members and ascertain their solvency and whether the loan made is really used for its ostensible purpose. What distinguishes a co-operative loan is this mutual control through all stages of its passage, and under the by-laws it can be recalled if misapplied. In actual practice, however, very few societies observe these principles.

The period of repayment of the loan made by rural credit societies corresponds with the period of reproduction of the loan given. Agriculture, unlike trade or industry, requires a long period loan as the returns from it can be obtained seldom below six months and may extend, in the case of some crops, to eighteen months. For the purchase of cattle or implements, etc., a much longer term is necessary. It is now common for societies to make advances to their members up to twelve months for cultivation

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expenses and from two to six years for purchase of livestock, etc., with particular reference to the ability of the borrowing member to repay.

Societies for the scheduled, backward and similar classes.

28. Co-operation among the scheduled (depressed) classes has been the result of the socio-economic disabilities under which they suffer and is over 25 years old. It is common knowledge that these people reside in separate villages or hamlets and have been debarred in many places from social intercourse with their caste neighbours. It was, therefore, found necessary to start separate societies for these classes. The initiative was taken in the earlier stages of the movement by the Young Men's Christian Association, missionary institutions and the Co-operative department. On 30th June 1915 there were only six societies exclusively for the members of the scheduled classes, but later their number considerably increased. With the organization of the Labour department in 1920, co-operative movement among the scheduled and backward classes received an impetus.

Objects.

Societies have been organized for the scheduled classes for various purposes—supply of credit for their agricultural and domestic expenses, purchase of house-sites to provide dwelling houses, or the taking of land on lease or an assignment from the Government for purposes of cultivation.

Classified according to their purposes, scheduled class societies as on 30th June 1938 may be grouped as follows :—

Number of credit societies	1,563
Number of societies for house-sites	519
Number of societies for taking land from Government or others on lease	324
Number of societies for joint cultivation ..	21
Number of other types of societies	64
Total ..	2,491

Separate financing agency.

A few societies are financed by district co-operative central banks. A separate financing agency known as the Christian Central Co-operative Bank was set up in the year 1916, and it supplied the bulk of the finances required by the societies till it was liquidated in February 1939.

Supervision.

It was recognized that there should be intensive supervision of these societies and the Labour Commissioner was at first allowed one Inspector for every 25 societies. The Inspectors who were lent by the Co-operative department to the Labour Officers gave their personal attention to their working. In 1930 a special assistant was appointed to work under the Labour Commissioner

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to co-ordinate the work of the District Labour Officers and to improve the scheduled class societies. But the post was abolished in 1932. Subsequently the supervision of these societies was transferred to the Co-operative department. The Christian Central Co-operative Bank felt that even this transfer did not result in the improved working of the societies and that a change was necessary in the method of supervision. An experiment was therefore tried during the period from July 1932 to October 1934 by way of placing the staff of Inspectors under the control of the Christian Central Bank in the three districts of Cuddapah, Guntur and Chingleput. But this experiment, too, did not prove satisfactory, and it was abandoned. In spite of attempts made from time to time to ensure closer supervision of the working of these societies, it cannot be said that the results have been satisfactory. Overdues in respect of loans given by the Christian Central Co-operative Bank and the district central banks were nearly Rs. 3·77 lakhs under " principal " and Rs. 0·49 lakh under " interest " on 30th June 1939 as against a demand of Rs. 4·04 lakhs under principal and Rs. 0·57 lakh under interest. The greatest obstacle to any sound development of co-operative credit among the scheduled classes has been their poverty and want of assured means to repay their debts, a matter to which we shall revert later in our report.

Societies for provision of house-sites.

Societies intended for the purchase of house-sites for the scheduled classes numbered 519 on 30th June 1938, Tanjore and South Arcot contributing between them 385 societies. Formerly, the arrangement was that whenever house-sites had to be provided for for them in any locality, a co-operative society was formed there, the members contributing 20 per cent of the estimated value of the land. This was converted into paid-up share capital and was adjusted towards the cost of the land eventually. The Government acquired land under the Land Acquisition Act and made it over to the society on an agreement executed by the society. According to this agreement, the societies had to pay the purchase price to the Government with interest in not more than twenty instalments. Failure to do so resulted in the entire resumption of the land by the Government and forfeiture of the amounts repaid till then. If the societies fulfilled the conditions, the sites were made over to the members concerned absolutely, the pattas being issued. No site could be alienated to anyone other than a member of the scheduled class who was eligible for membership. The society parcelled the land into parts of not less than 5 cents and allotted them to members, each member executing an individual agreement with the society in terms similar to those in the agreement between the society and the Government. A point in the agreement was that alienation or disposal of the site was barred, so that a member might ultimately become the absolute owner of the site given him.

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Difficulties faced by them.

These societies, too, have had to face difficulties. High prices of lands acquired, cost of acquisition proceedings, heavy rates of interest on loans, poverty of members, economic depression and consequent unemployment, and emigration have all contributed to the unsatisfactory condition of many of these.

Societies for assignment of lands for cultivation.

There were 324 societies on 30th June 1938 which took lands from Government and leased them to members for purposes of cultivation. These are concentrated in the East Godavari, West Godavari, Guntur and Kistna districts. They take on lease cultivable land, particularly " lankas " (islands more or less permanent, formed in river beds) in the delta districts. One of the biggest experiments made in joint cultivation by members of the scheduled classes in East Godavari (Peravaram Agency) undertaken and run by the Christian Central Co-operative Bank resulted in a costly failure and the eight societies included in the scheme owe Rs. 1·21 lakhs to the Christian Bank, which is under liquidation; a large portion of the loan is irrecoverable.

Societies for Kallars.

29. The reclamation of the Kallars of Tanjore and Madura was a piece of socio-economic work undertaken by the Government since 1922 with the organization of the Kallar Reclamation department. Co-operative societies were organized even earlier for the benefit of this caste in the Madura district and funds were advanced to them by the Government. As there was no effective organization for their supervision, loans became overdue. On its formation, therefore, the Kallar Reclamation department took up their supervision, recovered a good portion of frozen debts, and put life into the moribund societies. On 30th June 1939, there were 78 such societies in Tanjore and 259 in Madura with 17,199 members and outstanding loans to the Government of Rs. 1·35 lakhs. The societies in Tanjore district are now in charge of the Co-operative department.

Fishermen's societies.

30. The fisherman community of the West Coast is also looked after and attempts have been made to ameliorate their socio-economic condition through co-operative societies formed for their benefit. The Fisheries department has been in charge of these societies. There were on 30th June 1939, 51 societies with 1,992 members on rolls, paid-up share capital of about Rs. 34,000 and loans outstanding from members of a little over Rs. 76,000. The amount of reserve fund accumulated by these societies on 30th June 1939 was Rs. 27,383 of which Rs. 7,909 was invested in the district banks. Besides societies in charge of the Fisheries department, there are others scattered over the Province exclusively intended for fishermen for the purpose of securing fishing leases. Some of them in the Kurnool, Kistna, Nellore and Tanjore districts are doing fairly well.

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Societies for hill-tribes.

31. Societies have been organized for the benefit of the hill tribes also. But very little has been done, except in the Nilgiris, to improve the economic condition of these tribes through the agency of co-operative societies. There were 96 societies at the end of the year 1938–39, of which 72 were in the Nilgiris, 14 in East Godavari, 7 in Salem and 1 each in Vizagapatam, North Arcot and Kurnool. The 72 societies in the Nilgiris started for the benefit of the Badagas and Kotas had 4,230 members and a share capital of Rs. 26,625. The working capital of the societies amounted to Rs. 4·15 lakhs. Some of the societies worked at a net profit of Rs. 1,896 while the rest incurred a net loss of Rupees 14,642. There is a thrift society for the benefit of the Chenchus in the Kurnool district with a membership of 57 and share capital of Rs. 107. The savings of the members invested in the society amounted to Rs. 466 on 30th June 1939. To improve the condition of the Chenchus, a purchase and sale society for their benefit was organized with the object of purchasing the produce brought by them and selling it in the open market. Six co-operative societies were started for the benefit of the Mannady community in the Upper Palnis in the Madura district. Short-term loans to the extent of Rs. 12,508 were advanced to them and a sum of Rupees 7,325 was also given to them to clear off their prior debts.

Land mortgage banks.

Early attempts.

32. In 1919, Mr. F. R. Hemingway, the then Registrar of Co-operative Societies, formulated a scheme based on the experiment carried on in the Central Provinces, for raising money for use in co-operative banks on a system of debentures backed up by mortgages taken from members of primary co-operative societies on unencumbered immovable property.

We may refer here briefly to the circumstances leading to the formulation of the scheme. Firstly at that time, co-operative societies specially in the Tamil districts were in the habit of giving loans to their members generally for ten years for payment of prior debts. The primary societies obtained then, as they do now, their funds from central banks out of amounts deposited with them for a short period—generally for periods ranging from one to two years. Though the deposits in central banks had been coming in fairly well or existing deposits renewed and though the banks felt no inconvenience in lending money for longer terms than their deposits, yet it was realized that the issue of loans for longer periods was from a banking point of view, unsound. It was, therefore, considered desirable to devise a system to secure long-term deposits so that primary societies might get their loans repayable in longer periods. Secondly, in view of the acceptance about 1919 by the Government of a policy of a more rapid expansion of the movement, a considerable increase was expected in the demand for money by primary societies. It was considered necessary to devise

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a method by which money could be raised to supplement the moneys available by way of deposits. Thirdly, it was felt that there was good security worth lakhs of rupees in the lands of members of primary societies which could be utilized for raising further money. Fourthly, the system of raising money on the strength of mortgages of unencumbered land would, it was thought, be more attractive to the public than ordinary deposits secured only on share capital and collateral securities. Fifthly, in the Central Provinces, where conditions were similar to Madras, an attempt had already been made to raise money on the security of mortgages of unencumbered land and it was felt that there was no reason why Madras should not follow the scheme adopted by the Central Provinces with the modifications, necessary to suit local conditions.

Mr. Hemingway's scheme was, in details, mainly based on that adopted in the Central Provinces with this difference that while in the scheme of the Central Provinces, debentures would be issued in series, each series being secured by a definite mortgaged property, debentures under Mr. Hemingway's proposal would be issued with a floating charge on certain mortgages which could at any time during the currency of the debentures be replaced by other mortgages. Expert opinion was to the effect that Mr. Hemingway's scheme was better and an improvement over the scheme in the Central Provinces.

The scheme was subjected to a detailed examination by non-officials as well as officials and was slightly modified. Under the modified scheme, a primary society would execute a pro-note for the loan to be obtained by it on the strength of the mortgages of its members, the pro-note to be endorsed both by the central bank and by the Provincial Bank in favour of the Trustee to enable him to issue debenture bonds on the security of the pro-note. The responsibility for maintaining the mortgage bonds and for seeing that the value of the bond did not depreciate rested on the primary society. The advantage of the modified scheme over the original scheme lay in the fact that the assignment of mortgage bonds in favour of the central bank, the Provincial Bank and the Trustee would be avoided. The Government, after careful consideration, did not proceed with it as they presumably felt that it would be dangerous to link up long-term mortgage loans with the existing co-operative banks and that land mortgage banks should be separate concerns.

Scheme for the formation of separate land mortgage banks.

In pursuance of the orders of the Government in September 1922, calling for proposals for organizing land mortgage banks on the lines of the Jhang Co-operative Mortgage Bank in the Punjab, the Registrar submitted proposals; he suggested the organization of separate institutions for dealing with long-term credit, pointed out the difficulty of such institutions in raising money by way of debentures and emphasized the importance of Government help in

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the initial stages by purchasing the debentures of banks. In 1925 the Government accepted the Registrar's proposals and sanctioned the organization of these banks in select centres as an experimental measure. This was the beginning of the land mortgage bank movement in the Province.

Main features of the scheme.

The main features of these banks as approved by the Government were briefly as follows :—

(i) They were based on limited liability.

(ii) The area of operations was restricted to compact groups of villages to ensure intimate knowledge of borrowers and of the condition of lands offered as security.

(iii) The borrowing power of the banks was limited to 8 to 10 times their paid-up share capital.

(iv) The borrowings were in the form of debentures for 20 years carrying a rate of interest not exceeding 7 per cent.

(v) The borrowing power of a member was limited to Rs. 1,000 with a further restriction that the loan should not exceed 50 per cent of the value of the mortgage land.

(vi) The period of the loan was not to exceed 17 years and the rate of interest not to exceed 9 per cent.

(vii) The Registrar was to be the trustee for the banks for the due discharge of their obligations to debenture-holders.

To encourage the investing public to purchase the debentures floated by these banks, the Government undertook to purchase an amount equal to that to be issued to the public, subject to a maximum of Rs. 50,000 per bank and to a maximum of Rs. 2½ lakhs for the whole Presidency.

Difficulties experienced by the earlier banks.

Two land mortgage banks were registered in 1925 and ten by June 1927. Only three of them, could find purchasers for their debentures. The Townsend Committee on Co-operation, 1927, examined the position of these banks and recommended the proposal for the formation of a central land mortgage bank for the centralized issue of debentures and for financing primary banks. Practical experience also pointed to the same need.

The Madras Co-operative Central Land Mortgage Bank.

Constitution.

In pursuance of the recommendation of the Townsend Committee, the Madras Co-operative Central Land Mortgage Bank was registered in December 1929. Its object was primarily to finance land mortgage banks. Membership is open both to individuals and primary land mortgage banks. The capital of the bank is Rs. 20,00,000 made up of 20,000 shares of Rs. 100 each. The administration of the affairs of the bank vests in

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a Board consisting of 18 members. The Registrar of Co-operative Societies, who is the Trustee of the Bank, is an *ex officio* member of the Board. Of the remaining 17 members, 9 are representatives of primary banks, 6 are representatives of individual members and 2 are nominated by the Registrar. The Board may delegate all or any of its powers to an executive committee consisting of 6 members. The Registrar, the President, the Vice-President and the Treasurer are ex officio members of the Executive Committee. Two representatives from land mortgage banks sit on the Executive Committee. When neither of the Registrar's nominees is on the Executive Committee, the Registrar has the power to nominate one of them, in which case the strength of the Executive Committee will be increased to seven.

Resources.

The Central Land Mortgage Bank raises funds mainly by the flotation of debentures up to 25 times its paid-up share capital and reserve fund. Under section 4 of the Madras Co-operative Land Mortgage Banks Act (X of 1934), the Board of the Central Land Mortgage Bank may, with the permission of the Registrar as Trustee, issue debentures of one or more denominations for such periods as it may deem expedient on the security of mortgages and other assets transferred by primary land mortgage banks to the Central Land Mortgage Bank and of other properties of the Bank. The total amount due on the debentures may not exceed the total amount due on the mortgages, the amounts paid thereunder and remaining in the hands of the Board or of the Trustee. The debenture-holders have a floating charge on all mortgages assigned in favour of the Central Land Mortgage Bank, and the Registrar of Co-operative Societies, as the Trustee, has to see that the Bank fulfils its obligations to the debenture-holders. Under section 5 of the Madras Land Mortgage Banks Act (X of 1934), all the mortgages and other assets transferred by primary banks to the Central Land Mortgage Bank vest in the Trustee.

The Central Land Mortgage Bank now floats debentures for 20 years at 3½ per cent, interest being payable half-yearly. The debentures up to and inclusive of the XXIII series are irredeemable for a period of ten years except to the extent of annual collections under principal from primary banks. The debentures issued in the XXIV and the subsequent series are irredeemable for the first ten years from the date of their issue. After ten years the Bank may call in all or any of the debentures after giving three months notice to debenture-holders. The principal collections effected from primary banks in the loans financed by flotation of debentures up to and inclusive of XXIII series are invested in the name of the bank in a separate account with the Madras Provincial Co-operative Bank and drawn with the previous permission of the Trustee for redemption of debentures once in every half-year. For repayment of debentures commencing from the XXIV series, the Bank has constituted a separate sinking fund into which it remits annually

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throughout the period of debentures a sum which, with compound interest at the same rate as that borne by the debentures, would give a sum sufficient to pay off the debentures on maturity. The bank has also undertaken to make good from its revenues the difference if the income from investments in any year falls short of the anticipated income.

Government help.

Government have guaranteed fully and unconditionally the principal of and the interest on the debentures of Rs. 250 lakhs. The Indian Trusts Act has been amended suitably so as to include the debentures as Trustee securities. The duty chargeable under the Indian Stamp Act on the deeds of transfer in respect of the debentures of the Central Land Mortgage Bank has been remitted. Local bodies and municipalities have been permitted to invest in the twenty-year debentures of the Central Land Mortgage Bank their provident fund deposits and railway cess funds. Government have permitted the Provincial and District Co-operative Central Banks to invest their general funds in the debentures of the Central Land Mortgage Bank and to reckon such investment as a portion of the fluid resources required to be maintained by them; they have also permitted the investment of reserve funds of central banks in these debentures up to one half of the amounts to their credit. The Central Land Mortgage Bank has been declared a Provincial Bank under section 2 of the Reserve Bank of India Act.

With a view to enable the bank to issue debentures in bulk once or twice a year when money market conditions are favourable and to enable the bank to carry on its transactions between two issues, Government have agreed to give temporary accommodation to the bank subject to certain conditions. The bank is availing itself of the temporary accommodation given by the Government.

One-fourth of the net profits of the Central Land Mortgage Bank as declared by the Registrar every year is to be carried to the reserve fund. The balance is available for distribution of dividend not exceeding 1 per cent above the rate at which debentures, are issued.

Working of primary land mortgage banks.

The jurisdiction of a primary land mortgage bank which was originally restricted to a compact group of villages has, as a result of experience, been extended to a revenue taluk. Membership is open to a person owning agricultural land in its area of operation. It is affiliated to the Central Land Mortgage Bank and borrows money from it up to 20 times its paid-up share capital plus reserve fund. Though a few banks floated debentures before the Central Land Mortgage Bank started work, none of the primary banks floats debentures now. Loans are issued to members generally up to Rs. 5,000 for redemption of mortgages, for redemption of prior debts not secured by mortgages and for improvement of land

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or methods of cultivation. The by-laws of a primary bank provide for the grant of loans for purchase of land in special cases so as to enable a ryot to round off his holding and work it more economically. Loans carry interest generally at 1 per cent more than the borrowing rate of the bank and are repayable in twenty years. They are secured by the first mortgage of lands and do not exceed 50 per cent of the market value of such lands.

The management of a primary bank vests in a board consisting generally of nine members, whose services are gratuitous.

Procedure for sanction of loans.

The procedure adopted for the sanction of loans may briefly be stated. The applicant for a loan has to present his loan application to a land mortgage bank working in the area in which his lands are situated. On receipt of an application, the primary bank in collaboration with a departmental officer called a Co-operative Sub-Registrar ascertains the purpose of the loan, the applicant's title to the property offered as security, the value of property and the income from it and the applicant's repaying capacity. If the application is considered suitable, then it is sent to the Central Land Mortgage Bank with the reports of the directors of the bank, the legal adviser and the departmental officer. The executive committee of the Central Land Mortgage Bank considers the application with reference to the following points and then sanctions the loan or rejects it :—

(i) whether the purpose is legitimate and satisfactory;

(ii) whether the title is absolute and indisputable;

(iii) whether the value of the hypotheca is at least twice the amount of loan applied for and the net income from it is sufficient to meet the annual instalment of the loan; and

(iv) lastly, whether the applicant has other resources to meet his family expenses and other charges without encroaching on the income from the property offered for mortgage.

When the Central Land Mortgage Bank sanctions a loan, it communicates the sanction to the primary bank. The latter gets from the borrower the mortgage documents and assigns them in favour of the Central Land Mortgage Bank. On completion of these requirements, the loan is disbursed by the Central Land Mortgage Bank through the primary bank.

As the lands mortgaged to primary land mortgage banks form ultimately the security for debentures, the directors of banks inspect and revalue lands once a year. There are now 120 primary land mortgage banks in the Province. They cover as many as 17,241 villages and loans were issued in 4,432 villages. Up to 1939, loans amounting to Rs. 235·36 lakhs were issued by all the banks.

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Concessions and privileges granted by Government.

The Government have granted many concessions to land mortgage banks—levy of one-half of the fees payable under the Law of Registration for the time being in force for registration of documents, levy of one-half of fees for applications for search for encumbrances for loan applications exceeding Rs. 2,000, full remission of fees for encumbrance certificates in respect of loan applications of Rs. 2,000 and below, free supply of village maps and settlement registers and a free supply of the district gazette sheets in the language of the area containing sale notices and proclamations under the Madras Estates Land Act and the proceedings under the Madras Revenue Recovery Act.

The Government have sanctioned a special staff of three Deputy Registrars with six clerks and six peons and 33 Co-operative Sub-Registrars with a peon each, for work connected with the Central and primary land mortgage banks.

The Deputy Registrars inspect the banks at fairly frequent intervals and see that the banks run on sound and proper lines. Each Co-operative Sub-Registrar for Land Mortgage Banks has generally 3 to 5 banks in his charge. He inspects every bank in his charge once a month, collects statistics of sales of land, scrutinizes loan applications, appraises the value of land offered as security and recommends loan applications of primary banks to the Central Land Mortgage Bank. After a loan is sanctioned, he has to see that the conditions imposed by the Central Land Mortgage Bank are fulfilled and that all the discharged vouchers are sent to the Central Land Mortgage Bank. The Co-operative Sub-Registrar is in close touch with the work of the banks.

The cost of the Deputy Registrars and of their clerical staff is met by the Central Land Mortgage Bank. The Government bear the cost of the Co-operative Sub-Registrars and of their peons.

The Madras Co-operative Land Mortgage Banks Act X of 1934.

The Madras Co-operative Land Mortgage Banks Act X of 1934 was passed into law in 1934 to facilitate the working of land mortgage banks and to remove the several impediments to their working. In the main, the Act has conferred on land mortgage banks summary powers for the speedy recovery of arrears from defaulters through distraint and sale of their property without intervention of the courts, has enabled the Provincial Government to guarantee the debentures of the Central Land Mortgage Bank and has given the Central Land Mortgage Bank a general power of supervision over the primary land mortgage banks.

Co-operative Urban Banks (Credit Societies).

33. The Government of India, in explaining the considerations by which they were influenced in framing the provisions of Act X of 1904, said: "The present legislation is especially designed to assist agricultural credit which presents a far more

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important and difficult problem than does industrial credit, though it is recognized that societies may probably be started in towns also by non-agriculturists and it is even possible that in some places the establishment of town banks may usefully precede and even assist the starting of purely agricultural societies. Local officers should be instructed that rural societies are to be their first care."

Need for urban credit institutions.

The emphasis laid on rural credit did not prevent a recognition of the fact that the interests of the smaller artisans, traders, shopkeepers, industrial employees and others in towns should be protected and facilities provided for reasonable credit to them as well. The money-lender exerts the same baneful influence over his urban clients as the village sowcar does over the ryots, and a suitable machinery is necessary to provide relief to these classes.

Origin of the urban credit societies.

The Madras Presidency was as already stated peculiarly congenial to the birth of urban credit societies in that, for many years, *Nidhis* or indigenous mutual loan funds had been in existence and the earlier co-operative urban banks adopted the methods already in vogue in the nidhis. The first urban co-operatvie society was formed in October 1904 at Conjeeveram, and gradually a number of urban credit societies came into existence. On 30th June 1915 the number of non-agricultural credit societies was 103, with a total membership of over 22,000 and a working capital of nearly 15 lakhs of rupees.

Constitution and working.

The constitution and working of urban credit societies have followed more or less the same general lines as those of rural credit societies. There are, however, certain differences in practice partly owing to the difference in the nature of the problems to be tackled in urban areas and partly to the differences in environment. For towns unlimited liability, which presupposes a compact area and intimate personal contact between members, is obviously unsuitable. Urban credit societies are, therefore, organized on a limited liability basis. Further, artisans, traders and wage-earners in urban centres require credit far more quickly and frequently than members of village societies and the transactions of urban credit societies, are therefore, more brisk and the turnover more rapid than in village societies.

Resources.

The share capital in urban societies serves as the basis for raising outside credit and is, therefore, an important part of their finances. Next in importance to share capital is the amount of deposits which they obtain from members and non-members. A marked difference between urban and agricultural societies is the much larger proportion of members' deposits in the former. Lastly, they occasionally obtain temporary credits from central banks.

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The financial help rendered by central banks takes mostly the form of cash credits to enable the urban banks to maintain adequate fluid resources to meet depositors' claims on maturity.

Loan business.

Loans are generally given for comparatively short periods and repayments are usually made in monthly instalments. Urban banks advance loans on personal security, mortgage of immovable property, on the security of deposits, Government paper or insurance policies and jewels. House property is probably the largest item in value and the commonest form of security for most loans.

Financial particulars of urban credit societies as on 30th June 1939.

On 30th June 1939, there were 1,131 non-agricultural credit societies of all types with a membership of 292,844. Their total working capital was Rs. 417·43 lakhs. The societies disbursed loans to their members during the year 1938–39 to the extent of Rs. 293·33 lakhs and the loans outstanding on 30th June 1939 were Rs. 336·9 lakhs. Deposits from non-members amounted to Rs. 133·09 lakhs and from members to Rs. 107·95 lakhs. Loans from central banks amounted to Rs. 26·54 lakhs and constituted 7 per cent of their working capital. The percentage of overdues from all non-agricultural credit societies to financing banks and others was 4·67 under long-term and 1·02 under short-term. The percentage of overdues from members to societies was 22·81 and 14·62 under long-term and short-term loans respectively.

Urban banks and societies which receive deposits and loans exceeding Rs. 20,000 are required to maintain fluid resources on the standards and in the form prescribed by the rules.

The statistical statements in the annual reports do not furnish separate figures in respect of urban banks or people's banks, strictly so called. Non-agricultural credit societies include urban banks which carry on business in current accounts, ordinary urban credit societies and societies for Government servants and employees of local boards, municipalities, firms or factories. Of the total number of 1,131 non-agricultural credit societies at the end of the year 1938–39, 499 were exclusively for Government servants and employees of local bodies and other institutions, 45 were thrift societies, and the remaining 587 societies were composed of all classes.

Employees' Societies.

34. There were 171 societies exclusively for Government servants with a total membership of 47,031 and a paid-up share capital of Rs. 15·17 lakhs. Their working capital was Rs. 44·62 lakhs. Of their total borrowings of Rs. 24·36 lakhs, members' and non-members' deposits amounted to Rs. 11·36 lakhs and Rs. 11·33 lakhs respectively and only Rs. 1·67 lakhs represented the loans obtained from central banks. Three hundred and twenty-two societies were intended for employees of local bodies and municipalities, commercial firms, factories, etc., though in some of them membership

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was open to Government servants also. These societies had a total membership of 81,945 with a paid-up share capital of Rs. 29·60 lakhs and a working capital of Rs. 119·42 lakhs. The financial position of employees' societies is generally sound but much of their success depends upon prompt repayment of dues at the source; this is not, however, universal. A regrettable feature of the working of these societies is more or less a universal tendency among the members to borrow up to the maximum limit and almost continuously.

Co-operative Central Banks.

Financing rural societies in the initial stages.

35. The question of financing primary societies received the attention of the Government of India when they passed the Co-operative Credit Societies Act X of 1904. Their original intention was that the societies should be given financial assistance by the Government, though they were aware that such assistance might obscure the co-operative principle and that no societies wholly financed by the Government would ever attain the object in view. But, the Government also felt that such advances by the State would have a value beyond their mere use as capital since the advances would under the conditions to which it was intended to subject them, stimulate the thrift and self-help which, in their opinion, should be a condition precedent to their grant. The Government doubted whether any substantial progress would be made by rural societies in many parts of the country unless such assistance was given. The general principle laid down was that no advances should be made to any society so as to cause the total amount advanced to and due by the society to exceed the total amount of money subscribed and deposited or of share capital paid up by the members or to exceed Rs. 2,000. The object of this limitation was to encourage the provision of funds by the members themselves by regulating the amount of State aid according to the amount contributed by them to the working capital of the society; in other words, the extent of assistance given by the Government was to be made to depend upon the amount of thrift and effort which the members had shown as evidenced by their own subscriptions and deposits.

Formation of the Madras Central Urban Bank.

The primary societies in the Province were, therefore, at first financed by their own deposits and by small loans from the Government and from Sir Daniel Hamilton's Fund. It soon became evident that these resources were unequal to the demand and that loans from the Government could be only a temporary expedient. The need was, therefore, felt for an agency which could attract deposits from towns and employ them for primary societies. In these circumstances, the Madras Central Urban Bank was registered under the Co-operative Credit Societies Act of 1904 in October 1905 with a view to finance co-operative societies

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throughout the Presidency. The Act of 1904 did not permit a federation of societies. The membership was confined to individual members, its constitution being very similar to that of a joint stock bank. It was not until 1917 that provision was made for the admission of societies, Act II of 1912 (India), having permitted the formation of central institutions.

Origin and Development of Central Banks.

Less than four years after the formation of the Madras Central Urban Bank, the need was felt for more satisfactory decentralized financial arrangements through the formation of district central banks. The Registrar then said :—

> " The question of financing mufassal societies is one of great importance. Hitherto they have got on very successfully with the help of the excellently managed Central Bank in Madras. But with the progress (and in future, rapidly increasing progress) in the appreciation of co-operative credit by the ryot population, it is desirable to place the financing on a sure basis and to form several credit societies for this purpose. A local central society is locally managed and attracts local capital which can, under no circumstances, find its way to the Presidency town. A district bank will practically be a sort of co-worker with the Central Bank, while so far as the district is concerned, it will tap more local money. At the recent conference of Registrars, the policy of inaugurating district banks was welcomed.
>
> The Salem District Bank opens under good auspices; it has enlisted the sympathies of several leading bankers and merchants; some deposits have already been promised. If it works successfully—and I have every hope it will—other district banks will be organized; the surplus wealth of the richer parts of the Presidency will be organized to be of use to the ryots in the poorer regions; and the problem of financing rural co-operative credit societies in the Presidency will be practically solved."

The Salem District Central Urban Bank came into existence in 1909 and this was gradually followed by the registration of other central banks. Their membership was at first confined to individual shareholders. Later on, however, with the passing of Act II of 1912, India, central banks admitted societies also as their members.

A new variety of central bank known as a " banking union " came into existence in 1912, in the Madura-Ramnad Central Bank, which had both individuals and societies as shareholders. It also had for its objects not only the finance but also the supervision and control of constituent societies. Three more similar banks were registered before 1915. After 1915 other supervising organizations known as unions and federations came into existence.

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With the formation of central banks, the loans originally advanced by the Madras Central Urban Bank to primary societies in the districts were transferred to them.

Area of operations.

There is now one central bank for each revenue district in the Province as a general rule; Vizagapatam, Kistna and Tanjore, however have two banks each, and East Godavari four. The operations of the Madura-Ramnad Central Bank extend to the whole of Madura and a portion of the Ramnad district; the Coimbatore Central Bank serves both Coimbatore and the Nilgiris districts, and the Kistna (Masulipatam) Central Bank has jurisdiction over four taluks of the Kistna district and the Bhimavaram taluk of the West Godavari district.

Constitution and Management:

The central banks in the Province are, of a mixed type, consisting of both individuals and societies as their members. Their main object is to tap local money to finance societies in their area of operations. The administration of the bank is carried on by a board of management and an executive committee to which the board delegates many of its powers. The general body has the ultimate control over the affairs of the bank and meets once or twice a year. There are representatives both of affiliated societies and individual shareholders on the board of management. The representatives of societies are always in larger numbers on the board, generally twice as many as individual directors. Some of the central banks co-opt to their boards persons who have local knowledge or have rendered service to the movement. Following the recommendation of the Townsend Committee, individual directors are in most banks elected by the full general body of individual shareholders and affiliated societies.

The executive committee attends to the day-to-day administration of the bank, sanctions applications for loans, from affiliated societies, lays down terms of acceptance of deposits and has general control over the credit policy and administration of the bank. It also ensures supervision over societies through the local supervising unions; in some cases this is entrusted to a separate supervision or administrative committee.

Except in a few banks, the secretaries are salaried officers. In recent years, the banks have appointed qualified men as accountants or clerks. Following the recommendation of the Townsend Committee, most central banks have separated the functions of secretary and treasurer.

Resources.

A good many central banks in the Province depend upon their deposits for their finances. Whenever necessary, they borrow

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from the Madras Provincial Bank and also obtain cash credits for their fluid resources. The working capital of all central banks, as on 30th June 1939, was composed of—

	RS. IN LAKHS.
(1) Share capital	49·52
(2) Deposits from individuals (members and non-members)	252·56
(3) Loans and overdrafts from the Madras Provincial Bank and other institutions ...	199·47
(4) Reserve funds	33·80
(5) Other funds	30·89
Total ...	566·24

An important part of the finances of central banks was provided by local bodies who were authorized by Government in 1919–20 to deposit in central banks approved by the Registrar their surplus funds and the deposits lodged with them by contractors and employees; to those were also added railway cess and deposits with the Forest, Abkari, Jail, Hospital and other Government departments. The total amount of these deposits increased rapidly from Rs. 3 lakhs in 1919–20 to Rs. 140·08 lakhs in 1930–31 but subsequently there has been a fall. On 30th June 1939, the total deposits of local bodies with central banks were Rs. 45·81 lakhs. Quite recently certain restrictions have been imposed on local bodies in this respect. We shall refer to this later.

Central banks were originally permitted to borrow up to eight times their owned capital in pursuance of the recommendation of the MacLagan Committee that in the interests of depositors the total liabilities of central banks should not, in ordinary circumstances, exceed eight times their "owned capital," that is; their paid-up capital *plus* reserve fund. In September 1926, the Government raised the limit to ten times their owned capital. This limit is adhered to by all central banks.

Central banks are also required to maintain a certain portion of their deposits in liquid form to meet their deposit liabilities on due dates and the Registrar sees to this by obtaining quarterly financial statements.

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With the setting in of the depression central banks have been careful to conserve their resources and have been making adequate provision for bad debts. The total amount to the credit of "bad debt reserves" of all central banks in the province as on 30th June 1939 was Rs. 20·060 lakhs in addition to the statutory reserves amounting to Rs. 33·80 lakhs. In pre-depression days central banks were giving their shareholders dividends up to 9 per cent but during the last half a dozen years the general rate of dividend has been reduced to 5 per cent. In a few banks, however, there are preferential shareholders who get a preferential rate of dividend prescribed in their by-laws. The statutory maximum of dividend till recently was 9 per cent, but it has since been lowered to 5 per cent.

Loan Business.

The central banks were originally advancing loans to societies both for short and long periods. In the light of the recommendations made by the Townsend Committee, more emphasis has been laid on the development of their short-term business and the gradual reduction of long-term loans, particularly after the formation of land mortgage banks. Most central banks now confine themselves to short-term and medium-term—still popularly known as long-term loans. Their proportion as on 30th June 1939, is as follows :—

	PER CENT.
Short-term	44·9
Long-term (medium-term)	55·1

The overdues from societies to banks have, in recent years, been rather high, the economic depression having largely contributed to this result. The percentage of principal arrears as on 30th June 1939 and 30th June 1938 was as follows :—

	30th June 1939.	30th June 1938.
	PER CENT.	PER CENT.
Short-term	25·20	32·70
Long-term (medium-term) ..	56·21	61·19

The percentage of overdues on 30th June 1927—when the Townsend Committee made its report—was 20·18 (there being no separate classification then for short-term and long-term loans). The rates of interest paid by central banks on deposits vary, but the most usual rate at present is 3½ per cent and the rate charged generally on loans to societies is 5 per cent.

Central banks also give loans to members and non-members on the security of deposits made by them.

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The following statement shows the progress made by central banks in recent years :—

Statement showing the growth of Central Banks.

Year.	Number of central banks.	Share capital.	Deposits and other borrowings.	Reserve fund.	Total working capital.	Book profit.
(1)	(2)	(3)	(4)	(5)	(6)	(7)
		RS. LAKHS.	RS. LAKHS.	RS. LAKHS.	RS. LAKHS.	RS. LAKHS.
1920–21 ..	32	18·82	141·19	2·97	162·30	2·06
1921–22 ..	32	24·11	183·63	4·20	211·12	3·89
1922–23 ..	32	28·38	215·20	5·82	247·82	4·31
1923–24 ..	32	32·41	257·16	7·14	295·34	5·80
1924–25 ..	31	36·92	300·61	8·90	344·64	7·12
1925–26 ..	31	40·23	345·98	10·39	395·23	7·23
1926–27 ..	31	44·33	422·67	12·59	477·82	8·87
1927–28 ..	31	48·70	481·18	16·52	542·94	12·19
1928–29 ..	31	52·08	507·91	18·99	576·25	13·21
1929–30 ..	31	56·54	550·59	22·46	627·18	13·34
1930–31 ..	32	57·86	535·07	24·99	615·96	13·64
1931–32 ..	32	57·49	493·69	27·32	576·28	.. ‡
1932–33 ..	32	56·10	505·25	28·90	588·74	.. ‡
1933–34 ..	32	55·05	451·00	30·10	553·21	13·75
1934–35 ..	32	54·53	402·10	31·33	511·13	14·25
1935–36 ..	32	53·55	389·08	32·74	501·43	14·24
1936–37 ..	31*	50·41	387·56	33·45	499·79	11·73
1937–38 ..	31	49·79	409·68	34·28	523·54	10·64
1938–39 ..	30†	49·58	452·03	34·58	566·24	11·12

* Aska Central Bank and the Ganjam Central Bank transferred to Orissa Province and the Chicacole bank was started.

† The Christian Central Co-operative Bank was liquidated during the year.

‡ Figures are not available in departmental annual reports.

The evolution of the Madras Central Urban Bank into an Apex Bank.

36. With the formation of district central banks, the Madras Central Urban Bank withdrew from financing societies in the districts. With the growth of central banks, the problems of finance became more complicated; while some banks had surpluses others were unable to raise sufficient capital to meet the demands of affiliated societies and had to approach banks which had surplus money. The absence of a balancing centre in the scheme of co-operative banking structure was found to be a defect. The need

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was felt for a central controlling body to balance the funds of central banks by taking over their surpluses and supplying them with money whenever necessary. In accordance, therefore, with the recommendations of the MacLagan Committee, the Madras Central Urban Bank was converted into an Apex Provincial Bank in April 1917, permitting co-operative organizations including primary societies to take shares in it. In 1919, the Provincial Bank had practically become a federation of central banks with some individuals also as shareholders and the shares held by affiliated societies had been transferred to the respective central banks.

The general body of the Madras Provincial Co-operative Bank now consists of 184 preferential shareholders with a preferential right to dividend up to 9 per cent and of 32 representatives of central banks. The Board of Management consists of 32 representatives of central banks, and five representatives of individual shareholders elected from among themselves at a general meeting of both ordinary and preference shareholders. The executive administration of the bank is vested in a committee of 9 members, 6 of whom must be representatives of central banks. The term of office of directors is three years. The Provincial Bank acts as a balancing centre and generally controls the rates of interest at which the constituent central banks borrow and lend. It finances the central banks which are in need of funds and offers cash credit facilities to them partly against Government paper and partly co-operative paper. There is, however, no concentration in the Provincial Bank of cash-credits or overdrafts required by all the central banks. The Imperial Bank of India also gives the central banks cash credits against Government securities.

The position of the co-operative central financing structure in the Province at present is that of a loose federal type of banking organization; the Provincial Bank and the central banks are independent banking units but are loosely knit together by ties of financial relations. Uniformity of credit and borrowing policy is secured through the periodical central banks' conferences convened by the Provincial Bank. By virtue of its position the Provincial Bank has secured the direction of co-operative finance in the Province with the support of central banks.

The Madras Christian Co-operative Central Bank.

37. Many of the district central banks were reluctant to finance depressed or scheduled classes societies, as they apprehended that the business was too precarious to be undertaken by them. In 1916, a separate central bank known as the Madras Christian Co-operative Central Bank was started with a view to finance depressed classes societies all over the Province, except those directly financed by the Government and a few others that were affiliated to ordinary central banks. That bank discharged this function fairly satisfactorily till some time back. There was, however, considerable difficulty in recovering its dues from societies. A section of opinion

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had been gaining ground in recent years, which considered that this bank had outlived the period of its usefulness. The general outlook of the people towards the scheduled classes has also undergone a marked change for the better in recent years and the compartmentalization of co-operative credit, which the Christian Central Bank typified, was in the opinion of some, open to serious objection. The discovery of certain defalcations by the Manager of the Bank precipitated a crisis and the financial rehabilitation of the bank, which was already showing signs of collapse appeared beyond the range of practical politics. The Bank was, therefore, liquidated in February 1939 and the Deputy Registrar of Madras was appointed liquidator. The liabilities of the bank on 30th June 1939 amounted to Rs. 6·68 lakhs; the assets on the same date were Rs. 7·68 lakhs; a good proportion of the assets, it is feared, may prove bad.

The financing of scheduled classes societies which was hitherto performed by this bank is now being attempted to be transferred to the district central banks.

Loan and Sale Societies.

Early beginnings.

38. The earliest attempts at joint sale of produce were made in 1918, when the South Kanara Planters' Co-operative Sale Society was organized. Its main business was the joint sale of arecanut on behalf of the producers, giving them a better price. A few more societies were started in its wake. It was sought to popularize joint sales by advancing to members loans which enabled them to wait for a favourable market. But, for various reasons, the early attempts were not successful.

Development of sale societies.

The development of non-credit societies received an impetus with the reorganization of the department in 1925, when the districts were placed in charge of Assistant Registrars, leaving the Deputy Registrars free for devoting their attention to non-credit societies. A number of sale societies has been formed since then. There were 134 sale societies on 30th June 1939, the more important of them being the Tiruppur Trading Society for the distribution of cotton seed and the sale of cotton, the Rasipuram Trading Society for the sale of cotton and groundnut, and the Anakapalle Loan and Sale Society for marketing jaggery, the Nilgiris Potato Growers Society and the Cardamom Sale Society in the Madura district.

Objects.

The objects of sale societies are—

(1) to advance loans to members on the security of their produce;

(2) to arrange for the sale of produce of their members;

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(3) to rent or own godowns to facilitate the grant of loans to members and sale of their produce;

(4) to act as agent of those members which are affiliated societies in the matter of disbursing and receiving loans sanctioned to individual members of such societies; and

(5) to act as agent of those members which are affiliated societies in the matter of receiving for safe custody in their godowns or elsewhere the produce pledged to such societies by their individual members.

Present Position.

The total membership in all the loan and sale societies was 27,548 at the end of 1938–39 and the loans issued by them during the year amounted to Rs. 96·86 lakhs. The value of stock on hand at the beginning of the year and that received during the year either on pledge or for sale was Rs. 179·88 lakhs, of which stock worth Rs. 52·13 lakhs was released without sale and produce worth Rs. 45·87 lakhs was sold. Eighty societies earned a net profit of Rs. 43,463, while forty-nine societies incurred a loss of Rs. 11,482, there being no profit or loss in the other societies.

In view of the importance of co-operative marketing of produce, the Government have been helping the sale societies with subsidies, loan of services of special staff and cheap long-term loans for construction of godowns.

Provincial Marketing Society.

With a view to help sale societies to market their goods and to co-ordinate the activities of various loan and sale societies in the Province, the Provincial Marketing Society was started in 1936. It has 86 societies and 52 individuals as its members and a paid-up share capital of Rs. 6,100. It sold during the year 1938–39, goods worth Rs. 1·70 lakhs and earned a commission of Rs. 7,931, the chief articles dealt with being rice, butter, ghee, fruits and potatoes. The society at present sells most of its articles in retail from its godowns in Madras. Its objective, however, is to create and develop an assured market for its members' produce, where it can be sold in bulk.

The Government have sanctioned a staff of one Co-operative Sub-Registrar to act as its Secretary, a Senior Inspector as out-door assistant, a typist and two peons. They also gave the society a subsidy for meeting the expenditure on account of rent, pay of godown-keeper and servants during the first three years.

Milk Supply Societies.

The Madras Milk Supply Union—Origin and Development.

39. Towards the solution of the problem of supply of pure milk under sanitary conditions and at reasonable rates to the residents of Madras and to provide a subsidiary occupation to the agriculturists in villages round about Madras, a co-operative enterprise was launched late in 1926–27 and a number of small milk-supply

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societies were formed in the neighbourhood of Madras. Their main objects are to enable the members to buy and maintain good milch animals and to arrange for the sale of milk of the members to the best advantage by putting on the market pure and unadultered milk. A society for some of the milkmen in the city was also started. These societies formed themselves into a union (known as the Madras Co-operative Milk Supply Union) in 1927–28. The principal objects of the Union are—

(1) to purchase and dispose of, to the best advantage, the milk and milk products of its members or of the members of the affiliated societies;

(2) to purchase at wholesale rates and to distribute to its members cattle food and such other commodities as they require;

(3) to establish model dairy farms and modern daily plant for pasteurizing milk and producing butter; and

(4) to own or to hold on lease or otherwise pasture lands and undertake the maintenance of dry animals of the members of affiliated societies and of societies on those lands, charging reasonable monthly fees for the maintenance of each animal.

The Union supplies milk to State hospitals, private individuals and institutions. The surplus milk left over at the depots is immediately converted into curd and ghee, and in some cases, the cream taken off is sold.

The milk supplied by each member of the primary milk society is measured and the amount due to him is credited to his account. The Union makes payments to the societies once a month and the primary societies in their turn settle the members' accounts every month.

After carrying the prescribed provision to the statutory reserve fund, the Union gives the members of the affiliated societies a bonus in proportion to the value of the milk supplied by them, in addition to a dividend on their paid-up share capital.

The lack of facilities for the preservation of milk stood in the way of development of its business. There was also the inconvenience caused to the members of affiliated village milk societies in milking the animals at the very early hours of the day, viz., between 2 and 3 a.m. in order that the milk may be ready for supply to residents in Madras early in the morning. The Union has now installed a pasteurizing plant which meets this difficulty.

Progress.

The success of the Madras experiment has stimulated the formation of similar societies in the districts. On 30th June 1939, there were 6 milk-supply unions and 51 milk-supply societies. Milk-supply unions have been formed on the lines of the Madras Milk Supply Union at the following centres:—Coimbatore, Madura, Nellore, Ellore, Salem and Vellore.

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The following statement shows the progress made by these unions during the year 1938–39 :—

Name of union.	Value of milk purchased.	Sale of milk and by-products.	Net profit or loss.
	RS.	RS.	RS.
Madras Milk Supply Union ..	2,05,038	2,57,966	+ 13,915
Coimbatore Milk Supply Union ..	54,344	62,974	+ 319
Madura Milk Supply Union ..	19,216	21,026	— 1,081
Ellore Milk Supply Union ..	966	1,324	+ 145
Nellore Milk Supply Union ..	772	768	..
Vellore Milk Supply Union ..		Just started.	

Fruit Growers' Societies.

40. These societies came into existence with the starting of the Madras Provincial Marketing Society. The societies are intended to obtain for the members reasonable prices for their fruit and to save them the time and money involved in going to Madras and other marketing centres for sale. Besides marketing the goods, the societies give loans to members for their cultivation expenses.

There were eight societies on 30th June 1939, of which the Kodur Fruit Growers' Society in the Cuddapah district, the Michaelpalaiyam Fruit Growers' Society in the Madura district and the North Malabar Fruit Growers' Society only did some work. The turnover of the societies is given below :—

Name of society.	Sales.	Commission earned.	Net profit or loss.	Loans issued.
	RS.	RS.	RS.	RS.
Kodur Fruit Growers Society	81,092	3,819	+ 2,346	62,025
Michaelpalaiyam Fruit Growers' Society ..	1,232	97	— 152	..
North Malabar Fruit Growers' Society ..	3,276	..	+ 674	..

Cottage Industries.

41. Attempts at organizing cottage industries on co-operative lines were not made till the Co-operative Societies Act of 1912 (India) was passed. Though the Co-operative Credit Societies Act of 1904 provided for the organization of societies among artisans and other persons of limited means, the aim of that legislation was the furtherance of agricultural rather than industrial credit. But the 1912 Act provided for non-credit as well as credit societies for artisans. Even after this legislation, however, co-operative societies confined themselves for a long time to giving loans to members engaged in the various industries instead of organizing production on co-operative lines. The first attempt at organizing cottage industries on co-operative lines was made in the direction of starting weavers' societies in important weaving centres in the Province.

In 1927, the Government of Madras ordered a survey of cottage industries in the Province. The Special Officer appointed by the Government conducted a survey of important cottage industries

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and his reports were published. But this was not followed up by practical action on a large scale. A few co-operative societies were started at different centres, and some of them are doing useful work in a limited sphere. The most important of these societies are the Tiruppanangadu Button Manufacturers' Society, the Modaiyur Stone Image Workers' Society, the Arunthathiyars' Leather Works Society in North Arcot, the Andhra Ayurvedic Pharmacy in East Godavari and the Kondapalli Toy Manufacturers' Society in Kistna. The Ongole Egg Marketing Society in Guntur district is a recent co-operative enterprise which is still in an experimental stage. Attempts have been made to organize bee-keeping on a co-operative basis. The Puthur Taluk Bee-Keeping and Honey Production Society in South Kanara and the Pithapuram Honey and Wax Society are instances in point.

The Registrar has briefly put the present position as regards the organization of cottage industries on co-operative lines in the departmental administration report for 1938–39, from which we give the following extract :—

> "I must confess that very little has been done so far to form co-operative societies for the promotion of cottage industries. Where such societies had been formed in the past, they were faced with difficulties of finance and marketing. The question of giving an impetus to the development of cottage industries has for some time past been receiving the consideration of the Government. As a preliminary measure, commercial museums have been established in some of the districts, and it is hoped that within a few months there will be one such museum in every district. A provincial organization has also come into being to serve the purpose of a museum as well as an information bureau. Officers of the Co-operative Department have been carrying out a survey of cottage industries in their districts. The possibility of organizing cottage industries on co-operative lines is being examined by me in consultation with the Industries Department. I, however, feel that having in view the present position of large-scale industries, it will be a mistake to organize societies for all kinds of cottage industries, irrespective of the consideration whether they have or have not a survival value, and can or cannot withstand the competition of organized industry. Coir-making, basket-weaving, toy-making, bangle-making, etc., are some of the industries which may, perhaps, be taken up on co-operative lines. Whether it is feasible to organize cottage industries on the lines obtaining in Japan where certain processes even of large-scale industries are attended to on a cottage basis is a matter for expert investigation. In consultation with the Director of Industries and Commerce and District Museums it may be possible to start societies for the promotion of some at least of

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cottage or subsidiary industries. In this connexion, the problem of the speedy and efficient marketing of the products of cottage industries will always have to be borne in mind."

Women's Societies.

42. Societies for the promotion of thrift and cottage industries among women have also been formed, and the members of some of these societies have taken to the production of hand-pounded rice, spinning and the making of fancy articles. There were 44 societies exclusively for women on 30th June 1939 with a total membership of 1,378 and paid-up share capital of Rs. 2,829. These societies were originally intended mainly for the encouragement of thrift among women, but they have subsequently been permitted to start cottage industries. Of the 44 societies, 22 have now provision in their by-laws for taking up cottage industries; 19 are purely thrift societies; 2 are stores societies and 1 is a credit society. The value of the articles produced by the members and sold during the year was Rs. 2,363 and the thrift deposits collected amounted to Rs. 3,099. These societies are still feeling their way. The Government have sanctioned a woman organizer for the City of Madras.

Weavers' Co-operative Societies.

43. The most important among the societies for cottage industries are the weavers co-operative societies which have been started to provide yarn or small cash advances to weavers and for the disposal of the finished cloth of members; and they are thus intended to improve the economic condition of the weavers and of the handloom industry. The first society was started in 1905 in Conjeeveram. From time to time societies were started for this backward class. These societies have not met with much success. The chief difficulty has been the lack of impulse from within the community to improve. The Registrar, in his administration report for 1906–07, made the following observation :—" the weak point is the untrustworthy character of the weavers themselves. They go to the middlemen when trade is brisk and come to the Union when trade is slack. They are a hopeless lot and I cannot help feeling that the time and energy spent in reclaiming them is spent in vain." Besides the indifference, ignorance and want of character of the weavers, the difficulty of selling the finished goods and the vested interests of master weavers have contributed to the slow progress of co-operative activities among the weavers. The wide fluctuations in the price of yarn has also added to the difficulty in securing the steady loyalty of the members in regard to the joint purchase of yarn. These societies have had a chequered career. There have been deaths and new births from time to time; on 30th June 1939, there were 174 societies with a total working capital of Rs. 3·39 lakhs. In addition, there were 64 credit societies in which more than 60 per cent of members were weavers.

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The Madras Hand-loom Weavers' Provincial Co-operative Society.

The crux of the problem has been marketing and arises from the fact that the mill-made cloth governs the price of all other cloth. The weavers' societies were, therefore, mostly constrained to do more or less credit business till 1935, when the handloom industry received an impetus under the Government of India subvention scheme. It was recognized that the absence of a central institution to co-ordinate the activities of primary weavers' societies in the Presidency accounted for the non-development of these societies and the Provincial Handloom Weavers' Society was formed in 1935, when the Government of India announced the grant of subsidy for developing co-operative buying and selling on behalf of handloom weavers. Its main objects are : (1) to arrange for the purchase of raw material and appliances required by the affiliated societies and their sale on reasonable terms ; (2) to arrange for the sale of the finished products of the affiliated societies ; and (3) to give financial and other help to the societies.

At the end of 1938–39, the Provincial Society had on its rolls 276 members with a paid-up share capital of Rs. 40,070 as shown below :—

Number and particulars.	Amount.
	Rs.
143 Weavers' Societies	16,100
87 Individuals	15,850
9 Firms	2,850
36 Co-operative Central Banks	4,270
1 Institution	1,000
	40,070

Out of the subvention granted by the Government of India, the Provincial Society utilized Rs. 70,159 during the year 1938–39 and subsidized primary societies to the extent of Rs. 30,996. It arranged for the supply of yarn to the societies at wholesale rates by the mills on its guarantee to the extent of Rs. 63,043. Under this guarantee the societies purchased during 1938–39 yarn worth Rs. 44,997. The Provincial Society also grants cash credits to the primary weavers' societies for the direct purchase of yarn and payment of wages, and on 30th June 1939, an amount of Rs. 61,725 was outstanding against societies under this head. Loans are also given by the Provincial Society against finished goods; the loans so granted during 1938–39 amounted to Rs. 13,804.

The Provincial Society has an emporium at Madras and seven sales depots in important centres in the Province for the sale of finished goods. It maintains four executive officers and eight production supervisors for supervision, inspection and guidance and one special supervisor to help the societies in dyeing their yarn.

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A Departmental Co-operative Sub-Registrar is the Secretary of the Provincial Society. The Registrar of Co-operative Societies, the Director of Industries and the Principal, Textile Institute, are *ex officio* directors of the society.

Consolidation of holding societies.

44. To mitigate the evils of fragmentation, societies for the consolidation of holdings have been started recently on the Punjab model. On 30th June 1939, there were 16 societies of this type, but only 6 of them did any work. The poor progress made by these societies is attributed to the conservatism of the ryots, want of a special staff for intense propaganda, and absence of provision for effecting the transfer of registry of the members' holdings in the revenue records. Further, the problem of fragmentation and subdivision of holding is not so acute in this Province as in the Punjab. We are informed that the Registrar has moved for certain amendments to the Indian Registration Act and the Madras Co-operative Societies Act to give a legal title to the transfers made by the society. For work connected with this type of societies, the Government have recently permitted the appointment of a special staff of inspectors taken from among the clerks of the Revenue Department who have served as Revenue Inspectors.

Colonization Societies.

45. A beginning has been made in starting colonization societies for encouraging educated unemployed youths to take up agriculture as an occupation and for providing a living for others such as the toddy-tappers thrown out of employment owing to the introduction of prohibition in Salem. There were three such societies on 30th June 1939, in Chingleput, South Arcot and Salem districts. No appreciable work has so far been done by these societies. The whole question of colonization on co-operative lines is, however, only in the initial stage.

Industrial and Credit Co-operative Societies and Sugarcane Growers' Societies.

46. To enable ryots to get a better income than what they derive from the cultivation of food crops, societies for the cultivation of sugarcane and for the manufacture and sale of sugar have been started in important sugarcane-growing areas. The Government of India has sanctioned a subsidy from the excise duty levied on sugar for the purpose of assisting these organizations. The Provincial Government have sanctioned a special staff—co-operative and agricultural—to help the formation and working of these societies.

On 30th June 1939 there were 15 sugarcane growers' societies and unions, of which Sree Vuyyuru Sugarcane Growers' Union, the Hospet Sugarcane Growers' Society and the Coimbatore Sugarcane Growers' Union have done good work.

Of the industrial and credit type, there were three on 30th June 1939. The Vuyyuru Industrial Society is the most important of them. During 1938–39, it crushed 46,587 tons of sugarcane

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and manufactured 3,628 tons of sugar at a cost of Rs. 10·57 lakhs. Rs. 6·63 lakhs were realized by the sale of sugar produced and at the end of the year value of stock on hand amounted to Rs. 5·49 lakhs. An officer of the Agricultural Department and a Senior Inspector of Co-operative Societies are attached to the society.

Other forms of Agricultural Co-operation.

47. There are several other forms of agricultural co-operative societies of widely varying activities and corresponding to the different economic requirements of the rural population to which we have not referred so far. Among these may be mentioned kudimaramat and irrigation societies for undertaking kudimaramat work such as removal of silt and the maintenance of irrigation channels, agricultural improvement and demonstration societies for distribution of improved varieties of seed, manure, for attempts in seed-multiplication, for demonstration of improved methods of cultivation and for conveying to the ryot expert counsel and advice, cattle-breeding societies for maintenance of stud bulls to produce a better breed of cattle and to provide veterinary aid, better living societies for reforming bad social customs and preventing waste of money on festivals, marriages and funerals and inculcating habits of thrift. The two Mahali Prevention societies in South Kanara constitute an admirable co-operative enterprise for the eradication of the "Mahali" pest in the large areas under arecanut cultivation in that district and demonstrate the flexibility of the co-operative principle in its application to the practical needs of the ryot in every direction.

Consumers' Co-operation.

48. The history of consumers' or distributive co-operation in this Province, with the single conspicuous exception of the Triplicane Stores, has not been a record of success. The earliest societies were the Triplicane and Coimbatore urban societies started in 1905. In the beginning these societies combined distribution with credit work, that is, lent money to their members besides selling provisions to them. A few more societies were started in the years that followed but the pace of progress was slow; on 30th June 1915 the number of stores societies was only eleven. The abnormal increase in prices in the wake of the Great War stimulated the growth of stores societies. But the subsequent crash in prices, coupled with other causes, such as errors of judgment on the part of the management in the time, place and nature of their purchases, disloyalty of members, who bought elsewhere when they could do so profitably to themselves, high establishment and contingent charges on account of the location of the societies in towns where cheaper machinery could not be available, violent fluctuation of prices between the dates of purchase and sale and also deterioration in stock and the negligible difference between the wholesale rates and the retail prices of staple foodstuffs, led to the liquidation of many. From 103 in 1921, the number came

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down to 58 in 1936–37. The number has, however, increased recently and on 30th June 1939, the number was 85. The value of goods sold by them was Rs. 23·77 lakhs.

The most successful of these is the Triplicane Urban Co-operative Stores registered in 1905, which operates through 29 branches throughout the City of Madras. Seven of these branches own their premises. The society had a credit department till 1933. It owns a depot at Kodavalur in Nellore district for the purchase of paddy from the producers direct, and another at Gudivada for the collection of butter from the villages round about. It has installed its own mills for the production of good gingelly oil, which has earned a reputation for its quality locally.

On 31st December 1939, there were 6,021 members on the rolls of the society with a paid-up share capital of Rs. 84,174. The annual average sales amount to Rs. 9,00,000 while the net profits amount to Rs. 8,000 per half-year.

Another development of co-operative stores is to be found in schools and colleges where the students form co-operative stores for the purpose of purchasing jointly the books and stationery required by them in school work. There were 94 societies of this type on 30th June 1939. The following figures indicate the progress made by them :—

	1938–39.
(1) Number of members	5,564
(2) Number of associate members	10,251
	RS.
(3) Paid-up share capital	13,922
(4) Value of articles sold	1,72,934
(5) Stock on hand at the close of the year.	42,816
(6) Savings effected	6,593
(7) Bonus distributed from the profits of the previous year	3,282

Co-operative Insurance.

49. An interesting experiment in the development of the co-operative movement in the recent past was to start an insurance society on a co-operative basis for the whole of the Province. The South India Co-operative Insurance Society was registered in 1932 with its headquarters in Madras. The object of the society is to provide the benefits of insurance to the middle and the poorer classes of people including agriculturists. The minimum value of a policy is Rs. 100. The scales of premia adopted by the society are low compared with those of most other insurance companies. With the help of the district central banks, local boards of co-operators have been organized in important centres in the Province and these boards assist the society in canvassing business and consequently reducing its overhead charges. From small

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beginnings it has made rapid advance. In its first year, it had on its rolls 162 members with a share capital of Rs. 33,163 and issued policies for Rs. 1·71 lakhs. On 31st December 1939, it had a membership of 10,642; its total life assurance business stood at Rs. 100·4 lakhs in respect of 11,805 policies.

House Building Co-operative Societies.

Early beginnings.

50. The first real attempts at co-operative organization of house-building societies were made at Coimbatore as early as 1913–14. The municipality had cleared some of the congested areas and opened out extensions.

Some of the richer persons dispossessed of houses through the slum clearance operations of the Coimbatore Municipality had organized the first co-operative building society in 1913. The society financed its members to build new houses from funds borrowed from the central bank, and by way of deposits.

The other inhabitants dispossessed of their lands and houses were given sites in the extensions for fresh houses. But as most of them were very poor and as the municipality was anxious to prevent a reproduction of slums in the extensions, a scheme was worked out by the Co-operative department in collaboration with the municipality and the Collector to enable the poor men to build model houses. As it was out of question for the poor to raise funds through deposits or borrowings from the central banks, the idea of a state-financed co-operative building society was taken up and the Registrar submitted proposals for financing co-operative building societies with twenty-year loans at a rate of interest not exceeding 5 or 6 per cent. Societies were soon organized at Madura and Dindigul (1913–14), at Kumbakonam, Ootacamund, Madras and Uttiramerur (1914–15).

The Board of Revenue looked at the Registrar's proposals with an unkindly eye but the Government realizing the need of such pioneer effort, called for further details. After an unusually protracted correspondence as to the principles and methods of formation and working of such societies, the Madras Government obtained the sanction of the Government of India in 1921 for its proposal to finance building societies direct at cheap rates of interest in order to relieve congestion in urban areas.

In the meantime, through many vicissitudes, the originators of the Coimbatore scheme and the Municipality of Coimbatore in particular doggedly pursued it. Some five years after the approval of that scheme, the Government lent Rs. 25,000 to the Coimbatore Municipality repayable in 20 annual instalments with interest at 6 per cent per annum, to enable it to finance the Othachakkars Co-operative Buildings Society which in its turn was to give loans of Rs. 500 to Rs. 520 to each of its members for constructing model houses on an approved type-design in an extension laid out

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specially for the purpose under the supervision of a technical man deputed by the municipality. The members were expected to repay their loans in monthly instalments of Rs. 3 each over a period of twenty years. The scheme was not a marked success; even the full amount of Rs. 25,000 could not be utilized for want of sufficient number of members to take advantage of the scheme.

The societies formed at Madras, Madura, Dindigul, Kumbakonam and other places, were for the benefit of individuals of the middle class, who could afford to put in their own money and to supplement it with Government loans. But they made no progress for five or six years after they were started, pending a final settlement of the details of their working.

Individual ownership versus co-partnership.

There are two main forms of co-operative building societies—the individual ownership system and co-partnership system. The latter system has never been popular in Madras. It is generally found that an individual can build a small house more cheaply than the society and he can build it to his own plan exactly as he wants it himself. If the society builds the houses, it is not possible for the directors to give as much individual attention to the supervision of the construction as the individual member would give. Under the co-partnership system the society must collect rent from its members who are its tenants. But the enforcement of payment is not easy, while the payment of instalments of loans under the individual ownership can be enforced by attaching the house. It was, therefore, decided that the type of building societies based on co-partnership or tenancy system was not suitable and only societies working on the individual ownership basis should be financed. Further, the original idea of helping the poor people with State loans was given up in favour of affording assistance to the middle classes.

Loans.

The actual administration of the rules regarding the State loans has slowly but surely tended to the financing of a better type of buildings which can serve as good security for loans the repayments of which are spread over 15 or 20 years. From a maximum loan of Rs. 3,000 to a person in the beginning, the maxima were raised to Rs. 6,000 for a mufassal house and Rupees 8,000 for a Madras house in 1936.

With the approval of the rules by Government in 1923, the Government began to place annual allotments at the disposal of the Registrar for the grant of loans to building societies. Loans are ordinarily for twenty years or, with the sanction of the Registrar, for thirty years: they are only sanctioned for the purchase of sites and the construction of new houses. The Government loans outstanding against building societies on 30th June 1939 amounted to Rs. 20·36 lakhs.

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Recent Developments.

The only interesting developments in the history of the building societies in the Province recently, are (1) a successive reduction in the rates of interest charged on State loans—from 6½ to 4 per cent, and (2) the efforts made from 1938 to start schemes for housing industrial workers at Coimbatore, Madura and Ambasamudram. The reductions in the rates of interest has contributed to the popularity of building societies; on 30th June 1939, there were 126 societies in the Province. There has also been an increasing flow of applications for loans. The scheme for housing the workers has originated as a result partly of the initiative of the owners of the textile mills at Coimbatore and Madura and partly on the pressure put on them to improve the condition of their labour. The entire cost of the lay-out and construction of houses, provision of amenities like water-supply, drainage, etc., is to be met wholly by the owners of the mills whose workers are to be benefited or is to be supplemented to some extent by Government loans, if necessary. The workers, on becoming members of the society, on payment of a nominal share capital of a rupee each, are to occupy the houses on payment of a monthly rent of about Rs. 3 or Rs. 4. The arrangement is that if they pay the rent regularly over a period extending from 10 to 20 years, they will be made absolute owners at the end of the period. The houses are to be built to approved type-designs, with a view to bestow maximum possible convenience and accommodation, but at a cost which it will be possible for the worker to pay in the course of a number of years a sum equivalent to his monthly house rent.

Progress.

The following statement shows the progress of co-operative house building societies as on 30th June 1939 :—

Number of societies	126
Number of members	4,583
	RS. IN LAKHS.
Paid-up share capital	10·53
Net profit or loss	+ 0·55
	— 0·08
Loans outstanding to Government ..	20·36
Number of houses completed	2 315
Estimated value	78·18
Number of houses under construction ..	169
Estimated value	3·58

Local Supervising Unions.

51. In the first few years of the movement the Registrar personally supervised and inspected every society and recommended loans. He also personally trained a small staff. This was possible because at that time societies were few and the rate of increase

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was slow. By 30th June 1907 the number of societies had grown to 63; on 30th June 1912, the number was 972 and on 30th June 1915, the corresponding figure was 1,600. Of these 1,446 were agricultural credit societies. The remainder were nearly all urban credit societies.

Need for an agency for supervision—Early beginnings of supervising unions.

With the growth in the number of societies, the Registrar and his staff found it difficult to supervise the societies themselves. Machinery had to be devised for providing the supervision which the official agency could not give. It was also recognized that just as members of individual societies obtained credit by mutual confidence and control, so too societies must be able, by combining with one another, to obtain a similar increase of confidence and credit. It had also been found impossible for one central bank to supervise satisfactorily the numerous societies scattered over a large area of the district. For these reasons, therefore, the unions came into existence and their development was fostered. The first supervising union of societies was registered in 1910. Its membership was confined to co-operative societies within a radius of seven miles and its object was the supervision of its affiliated societies. In the words of the Registrar " the ultimate advantage of these unions will be that when they are started close together, the State may withdraw from the work of supervision, confining itself to audit work." Towards the expenses of the unions, the Madras Central Urban Bank agreed to set aside one-thirtieth of the total interest due on loans granted to the societies affiliated, and also expressed its strong disapproval of any proposal that the district banks should exercise supervision over primary societies. Two more unions followed in 1911. The earlier central banks, such as the Madura-Ramnad Central Bank and others had, among their definite objects, the supervision of affiliated societies. Some of the central banks were supposed—though it was not laid down in their by-laws—to " inspect " societies. The two systems of supervision by central banks and supervising unions developed side by side and on 30th June 1914, there were 19 supervising unions and 10 central banks in the Presidency. Six of the former had not actually started work; some of the latter, in addition to the unions, exercised supervision over societies.

Functions.

The earliest union was not only supervising but also guaranteeing union, that is to say, the affiliated societies were jointly and severally liable for all the debts consequent on loans made on the recommendation of their union. This was the type of unions prevailing in Burma and the Central Provinces. The Maclagan Committee favoured the adoption of this system and looked on the extension of this system as one of their " most important recommendations." In this Presidency, the constitution of the unions was subjected to considerable criticism and gradually a new type

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of union was developed which did not guarantee, but only supervised. With the financing of societies it had no direct connexion.

Constitution and Management.

The ideal union consists of about 25 affiliated primary societies all within a radius of seven miles so as to ensure local knowledge. Many unions, however, have now a larger area. Each affiliated society is represented on the union, the executive management of which is vested in a governing body the members of which hold office for a term of three years. The objects of a union are generally the development and supervision of its affiliated societies; it also recommends loans applied for by the affiliated societies, to the central bank. Each union maintains one or more supervisors to supervise the societies affiliated to it. The members of the governing body of the union visit societies. The number of local unions which was 398 on 30th June 1931 showed a gradual decline partly by reason of liquidation and partly on account of amalgamation, and on 30th June 1939 the number was only 223; including 24 unions whose working was suspended, it was 247.

District Co-operative Federations.

From the year 1918–19 onwards, a new agency to supervise and co-ordinate the work of unions, known as "District Co-operative Federation" came into existence. The federations consisted of all unions, primary societies not affiliated to the unions, and central banks as their members. Their objects were co-ordination of the work of the local unions, supervision, training, education and general propaganda. The supervision fund of each district was generally pooled in the federation, and the control of the supervising staff of the unions was vested in it. They received delegation fees, contributions from affiliated unions, societies and central banks and also for a time, subsidies from the Government.

Recommendations of the Townsend Committee as regards unions and federations.

The Townsend Committee subjected the work of unions to examination and came to the conclusion that the function of supervision, which was in the hands of two parallel bodies, namely, the central banks and the unions, should be vested in the unions and not in the central banks. Though a very large number of unions were not then functioning efficiently, they considered that it was largely a question of funds. In order to improve their working, they recommended a system of co-option to the governing body of unions, formation of district cadres of supervisors to provide greater security of tenure, frequent visits by members of the governing body to affiliated societies, preparation by the unions of annual reports on the working of each affiliated society, and the enlarging of the responsibilities of unions in relation to societies so as to include an examination of cash books and ledgers, ascertainment of proper utilization of loans, and a scrutiny of repayments, etc.

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As regards funds, the Committee suggested the centralization of the supervision fund, that district federations should administer the fund and that in the case of the weaker districts, the Government should make contributions to make up the deficits. As regards federations, the Committee suggested that they should be invested with greater powers of supervision over the work of unions and union supervisors; the entertainment, transfer and dismissal of supervisors should be with them and they should be made definitely responsible for co-operative propaganda and organization of new village societies.

Liquidation of federations.

In hardly less than three or four years after the Townsend Committee's recommendations, there was a change in the attitude towards the continuance of federations. They were considered as a fifth wheel to the coach. Lack of harmony between banks and federations, continuance of practically the same set of men on the boards of management of central banks and of federations, unnecessary additional expenditure on office establishment and travelling allowances, diminished income under supervision fund and the consequent need for economy—all these factors contributed to the disfavour with which the federations began to be looked upon from about the year 1930, and gradually one after another they were liquidated. With the abolition of these federations, the work of co-ordination and control of unions was taken over by the central banks.

Present arrangements for supervision of societies.

The present arrangement is that the supervision of societies is carried on by unions (in areas where they exist) assisted and controlled by the central banks. Twenty of the central banks have organized administrative sections or committees of supervision in charge of executive officers. The administrative sections attend to matters connected with supervision, namely, passing of budgets of unions, disciplinary control, transfer and punishments of supervisors, etc. About one-half of the central banks in the Province have also constituted district cadres of supervisors and framed rules to regulate their service conditions. The scales of pay of supervisors differ from district to district and depend mostly upon the resources of unions or central banks. Their pay ranges from Rs. 25 to Rs. 60. Some of the supervisors appointed in the past were not trained men. But in recent years qualified candidates, that is, those trained in recognized co-operative institutes and holding certificates of training are employed as supervisors.

The funds of supervising unions generally consist of affiliation fees, fees for registration of delegates, contributions by the central bank and affiliated societies towards supervision fund and grants and subsidies by central banks. Societies generally contribute to the supervision fund at the rate of eight annas on every sum of interest earned by them in the preceding year on every

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Rs. 100 of loans outstanding against members (exclusive of bad debts). Central banks contribute generally at the rate of 6¼ per cent on the interest realized by them on all loans advanced to societies. In a few central banks the contribution varies from four annas to one rupee on the interest realized on loans granted to societies; in West Godavari the contribution is 12½ per cent on interest realized, the societies making no contribution towards the supervision fund.

The Madras Provincial Co-operative Union.

52. The Madras Provincial Union was registered during the year 1913–14 with the general object of assisting co-operative work by every possible means. Towards the close of the year it was entrusted by the Government with the conduct of the Madras Bulletin of Co-operation. The Union was originally composed of both individual and society shareholders; but in 1918 steps were taken to exclude individuals from membership. Its membership is now open to "Provincial societies," language federations, local unions, central banks, urban banks with a working capital of not less than Rs. 20,000, land mortgage banks, co-operative training institutes and primary non-credit societies. Persons of knowledge and distinction in the field of co-operation may be invited to be honorary members. They may take part in the proceedings but are not entitled to vote.

The objects of the Union are to promote the co-operative movement in the Province of Madras, to propagate the principles of co-operation, to serve as the recognized exponent of non-official co-operative opinion in the Province and—

(1) to organize and develop diverse types of societies;
(2) to assist the work of the language and District Federations and Local Unions, in particular, and of other registered societies affiliated to it, in general;
(3) to publish Co-operative Journals;
(4) to publish, stock, distribute and sell leaflets, pamphlets and books dealing with Co-operation and allied subjects;
(5) to organize co-operative education, through training classes and other appropriate means, for supervisory and administrative staff on non-official agencies;
(6) to organize public lectures, conferences and exhibitions;
(7) to act as an information bureau for affiliated societies and the public and to maintain a Co-operative Library in the City of Madars;
(8) to organize and promote Rural Welfare schemes;
(9) to raise funds according to these by-laws and to administer the funds so raised; and
(10) generally to do all such other acts as are incidental or conducive to the attainment of any or all of the objects aforesaid.

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The funds of the Union are derived from subscriptions and contributions, sale of co-operative literature and publications; voluntary contributions and subsidies, if any, from the Government. Member societies pay annual subscriptions as provided below :—

	RS.
(*a*) Every provincial society pays	100
(*b*) every language federation pays	25
(*c*) every local union pays	5
(*d*) every central bank or urban bank or other primary non-credit society pays Rs. 5 on every lakh of its working capital as it stood on the 30th June of the previous year, or fraction thereof, subject to a maximum of Rs. 25	
(*e*) every training institute pays	15
(*f*) and every primary land mortgage bank pays	10

Honorary members are not liable to pay any subscription.

The following are the main activities of the Union :—

(1) Conducting in English "The Madras Journal of Co-operation";

(2) subsidizing the language federations and the District Banks of Malabar and South Kanara for publishing co-operative vernacular journals in Tamil, Telugu, Malayalam and Kanarese;

(3) carrying on propaganda in districts by its executive committee members;

(4) preparing magic lanterns and slides on co-operative subjcets for sale;

(5) convening the Madras Provincial Co-operative Conference;

(6) arranging for the holding of training classes for panchayatdars and members of societies throughout the Presidency;

(7) conducting institutes for training candidates for employment as supervisors;

(8) maintaining a reading room and library for public use; and

(9) conducting classes for training rural guides.

Language Federations.

53. There are two language federations, the Andhra Sahakara Sammelanam at Rajahmundry and the Tamil Nadu Co-operative Federation at Coimbatore, with more or less similar objects. The former conducts a Telugu Journal on co-operative matters and carries on co-operative propaganda in the Telugu districts. The latter publishes a monthly journal "Kooturavu" and co-operative literature in Tamil and its manager tours in the Tamil districts, carrying on educative propaganda in co-operation.

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Education and Training.

54. The need for co-operative education and training for all grades of official and non-official workers was recognized from the inception of the movement but the methods in force were informal and incomplete. The Townsend Committee on Co-operation and the Royal Commission on Agriculture in India have drawn pointed attention to the ignorance of many of those who are most closely concerned with co-operative societies and stressed the need for the patient and persistent education of members of co-operative societies in the principles and meaning of co-operation by teachers competent to perform the task efficiently and under adequate supervision.

Attempts were, therefore, made for a more complete and methodical training of (1) members and panchayatdars of societies, (2) candidates for employment in co-operative institutions, and (3) official staff.

Before the present arrangements were brought into force, the training of members and panchayatdars of societies was carried on by the departmental officers, governing body members and supervisors during their visits to societies. The District Co-operative Federations conducted regular panchayat classes and for about three years they received subsidies from Government for this purpose. Training institutes were started in six centres in the Province for the benefit of candidates and instruction was imparted in Co-operation, Auditing, Book-keeping and Banking. Government gave the institutes help both by way of staff and money grants. But the supply of trained candidates soon exceeded the demand, and the need for as many as six schools ceased. Arrangements were consequently made to form a Central Institute at Madras and to continue two peripatetic schools to train men for employment in banks, supervising unions, etc.

The Government of India has given the Provincial Government a subsidy for a thorough training of official and non-official staff and of members of agricultural societies in the theory and practice of Co-operation.

The following is the outline of the scheme approved by the Provincial Government for the training of recruits to the department and co-operative institutions and for the education of members and panchayatdars of societies :—

(i) *Training of Junior Inspectors.*—Candidates for the posts of Junior Inspectors are selected by the Madras Public Services Commission. Each candidate is, after selection, given preliminary training for four months. At the end of this period, he is examined by a Deputy Registrar to test his fitness for work. If he is found fit, he is sent to the Central Co-operative Institute for training for ten months. After the completion of training in this institute, he will carry on the work of an inspector for four months,

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viz., audit of accounts of village societies, urban banks, non-credit societies and central bank. He will also organize and start three village societies, learn arbitration work and dispose of half a dozen arbitration references.

The candidate will then sit for an examination conducted by the Central Co-operative Institute. Only successful candidates are appointed to the Co-operative department.

The inspectors of the department and the supervisors working under co-operative institutions are assembled periodically to discuss the problems and difficulties arising in the discharge of their duties. The refresher classes are held twice in a year, once in June or July and again in January.

The Central Co-operative Institute is located at Madras and is under the general control of the Registrar of Co-operative Societies with a Principal in immediate charge of it.

Period of training.—The course lasts for a year including vacation.

Admission.—Candidates for departmental requirements alone are trained in the institute. Admission is restricted to 50 in a year and a limited provision has been made for candidates from Indian States and other Provinces.

Fees.—Each candidate has to pay Rs. 40 for the whole course in one lump-sum in advance or in two instalments of Rs. 20 at the beginning of each term (July and January).

Subjects.—The syllabus consists of two parts—
Part I—Co-operation, Book-keeping, Audit and Banking.
Part II—Rural Economics.

Staff.—The staff consists of a principal and two lecturers, with one clerk and two peons.

State aid.—The cost of running the institute is met entirely by Government.

Examinations.—The students are trained for the Technical Examinations in Co-operation, Auditing, Book-keeping, Banking and Rural Economics.

(ii) *Supervisors.*—The central banks with the help of Deputy Registrars select candidates for the posts of supervisors from among Secondary School-Leaving Certificate holders, preference being given to those who come from villages. The selected candidates are given preliminary training by an experienced supervisor for two months. During this period he has to acquaint himself with the working of different types of societies, read by-laws, the rules and the Act and watch the work of a supervisor and generally assist him in his work. Thereafter a written and an oral examination is held by the president of the central bank and the Deputy Registrar concerned. If the candidate comes out successful, he is sent for training in one of the peripatetic

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schools for a period of five months. On completion of this, he is given practical training for two months. Finally, he has to sit for an examination conducted by the Provincial Co-operative Union, and successful candidates are appointed supervisors.

Peripatetic schools.—Of the two peripatetic schools, one is intended for the northern districts and the other for the southern districts. The scheme of training in these schools is as follows :—

Period.—The course is of five months duration and four classes are in all expected to be held in a year—that is, in two centres in the north and two centres in the south.

Admission.—Admission is restricted to holders of Secondary School-Leaving Certificate and employees of co-operative institutions. Each school may admit not more than 40 candidates for each class.

Fees.—A fee of Rs. 20 is payable by each candidate.

Subjects.—The subjects taught are—

(i) Co-operation (Theory and Practice);
(ii) Auditing;
(iii) Book-keeping; and
(iv) Banking.

Instruction is confined to the elements of the subjects.

Staff.—Each school is expected to be in charge of a superintendent of the grade of Sub-Deputy Registrar of Co-operative Societies, assisted by two lecturers.

Government aid.—The services of the Sub-Deputy Registrar are lent free. His travelling allowance is also met by Government. Towards the cost of the two lecturers, a subsidy is given by Government.

Examination.—An examination is held at the end of the course and certificates are awarded to the successful candidates.

(iii) *Secretaries and managers of banks.*—The need being felt for the appointment by central banks and urban banks of men trained in the principles of banking and of sound business, a section was opened in the Central Co-operative Institute to train each year 35 men (including departmental men) for three months. The deputation of departmental officers for such training has since been discontinued.

(iv) *Training of men in charge of non-credit societies.*—Special training is necessary for the management of special types of societies like co-operative stores, sale societies, etc. For this purpose, a separate section in the Central Co-operative Institute has been organized for training selected departmental inspectors and office-bearers of special types of societies. The period of training is two months and

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about thirty men are trained at a time. The staff of the Central Institute is temporarily strengthened for this period.

(v) *Training of panchayatdars of societies and education of members.*—The Provincial Co-operative Union conducts training classes for panchayatdars and members of societies and receives a grant of Rs. 22,236 from Government for the purpose. It also contributes Rs. 7,412 annually out of its funds towards the expenses in conducting these classes.

Training of officers.—Direct recruits to the posts of Co-operative Sub-Registrars and Deputy Registrars are also given training in all branches of co-operative work before they are given independent charge. Deputy Registrars and selected Co-operative Sub-Registrars are deputed from time to time to other Provinces to study the working of the co-operative movement there.

Audit.

55. Audit is a statutory duty imposed on the Registrar by section 37 of the Madras Co-operative Societies Act, vide section 17 of Act II of 1912 (India). The Government, through the Registrar, have a legal responsibility to ensure that all societies of every description are audited every year, either directly by their own officers or by independent competent auditors. As the Maclagan Committee put it, " Audit is in fact a State-controlled audit, and it appears to us that this view is implied in the clause of the Act which imposes the duty of making an audit on the Registrar and his nominees. It is through audit alone that an effective control can be exercised over the movement, and it is clear that it was never intended that the audit should be merely an arithmetical one and that the Registrar's activities should be confined to the inspections or enquiries mentioned in sections 35 and 36 of the Act. The auditing staff, from whatever source they may be paid, are in our opinion responsible to the Registrar and must be mainly controlled by him. Their reports are intended for his information."

Kinds of Audit.

For this purpose a staff of inspectors, junior and senior, whose functions are confined to audit alone, is maintained by the Government. One junior inspector is in charge of 60 village credit societies for purposes of audit. Of each society in their charge, these inspectors carry out an " *interim* " and a " *final* " audit. The interim audit is conducted between two final audits.

So far as central banks and big urban banks are concerned, there is a system of *concurrent audit*. That is to say, the audit staff is engaged continuously throughout the year, or, in the alternative, attends to audit at monthly or quarterly intervals during the year.

The *final* audit is the statutory annual audit. Though, in theory, the societies themselves prepare the balance sheets and

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the inspectors should verify them, in practice the inspectors themselves prepare the balance sheets for the societies, at least so far as the rural societies are concerned. Thus the bulk of the work falls on the auditors.

The final audit done by each auditor is tested to see whether or not he has correctly done the audit. This is known as "*test audit.*" Ordinarily 5 per cent of the societies are taken at random for test audit.

The audit inspector is expected to complete the interim audit of the societies in his charge between January and June and the final audit between July and December. As a general rule, central banks, big urban banks and land mortgage banks are audited by auditors of the grade of Senior Inspectors who have had more practical experience in auditing.

Qualifications of Auditors.

Under the rules in force, Junior Inspectors are recruited from amongst men holding B.A., or B.Sc. degree (except in the case of candidates belonging to the scheduled classes or members of the ministerial service in the department certified as fit for promotion as Junior Inspectors by the Registrar). The Junior Inspectors are given practical training in organization, starting, audit, non-credit work and theoretical instruction in co-operation, auditing, banking and book-keeping and rural economics. Further, they have also to pass during their period of probation (two years), an examination in these subjects and failure to pass would entail termination of probation. For the posts of Senior Inspectors, Junior Inspectors who are qualified under the rules and whose record of work has been satisfactory are selected on grounds of merit and are appointed by the Registrar. Their old and present scales of pay are—

	Present scale.	Old scale.
	RS.	RS.
Junior Inspectors ..	35—5/2—75	40—4—60—2—80
Senior Inspectors ..	75—5/2—90	80—4—100

Audit Unions.

When the staff for audit was not adequate and big societies like urban banks which had large transactions could not be audited either at frequent intervals or soon after the close of the co-operative year, the question of formation of audit unions was considered in 1922. A few unions were, therefore, formed by a number of big societies joining voluntarily together for arranging their audit. An audit union employs an auditor approved by the Registrar and the cost of the staff and other expenses of the union are met by

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contributions from the affiliated societies. The formation of these unions was encouraged at a time when no audit fee was levied. But with the charging of audit fees and the provision of adequate staff for audit, it was felt that there was no justification for some societies or banks being in audit unions and contributing less than those which paid the fee levied under the rules. Many of these audit unions were therefore liquidated. At present there are only three audit unions working in the South Arcot, Madras and Coimbatore districts.

Audit Fees.

The question of the levy of audit fees has a pretty long history behind it. As early as 1915, the Government considered the proposal to charge fees from societies for audit, but later on it was dropped. The question was considered again in 1920 and 1925, but it was decided that the financial condition of societies which contribute to supervising unions, as do the great majority of societies in the Presidency, would not permit them to contribute to the cost of audit also. With the exception, therefore, of societies which formed themselves into audit unions or made separate arrangements for audit and paid for it, all audit was done by the Government free of charge till the year 1927. The Townsend Committee recommended that central banks and urban banks should pay for their concurrent and final audit, with the exception of urban banks with a working capital of less than Rs. 50,000.

Audit fees were levied for the first time in 1927. Every society whether limited or unlimited, except audit unions, district federations and supervising unions, had to pay the fees. But such of those societies as affiliated themselves to audit unions or which arranged their audit by private auditors were exempt from payment. As most of the societies were affiliated to some institution or another, very few societies had in practice to pay the fees. The rule was revised in 1932 and it removed the exemption of societies affiliated to audit unions or district federations or supervising unions but allowed exemption for societies having less than 500 members or less than Rs. 20,000 in transactions of certain categories. More societies had to pay fees under this arrangement. It was considered that the criterion for determining whether or not a society was liable to pay audit fees should not be the working capital in respect of all classes of societies without distinction and that the determination whether a society was or was not liable to pay audit fees should be based only on its transactions, and not on the number of its members. The rule was accordingly amended in 1935 in its present form. The present position, therefore, is that the following types of societies are exempt from payment of audit fees :—

(1) All agricultural credit societies with unlimited liability;

(2) audit unions or supervising unions;

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(3) societies which have their accounts audited at their own expense (*a*) by the staff of an audit union in existence on the 9th June 1932 or (*b*) under arrangements approved by the Registrar and in force on 9th July 1932 or (*c*) by a person authorized by the Registrar to audit the accounts of the society under section 37 of the Act;

(4) credit societies, building societies, central banks or land mortgage banks of which the working capital on the last day of the co-operative year does not amount to Rs. 20,000;

(5) purchase, sale or production societies, the value of whose purchases and sales of articles or goods produced does not exceed Rs. 10,000; and

(6) any other class of societies whose gross income in the co-operative year does not exceed Rs. 5,000.

Primary land mortgage banks and building societies are exempt from the payment of fees for a period of three co-operative years from the date of starting.

These fees were based on the working capital of societies. As it was represented in 1933, that these fees were high, the Government reduced them with effect from the co-operative year 1935–36 by 12½ per cent with power to the Registrar to grant remission not exceeding another 2½ per cent at his discretion in deserving cases. It was again represented that this reduction did not afford adequate relief especially to credit societies and that the fees should be further reduced. A suggestion was made that the method of charging fees on the basis of working capital was artificial and gave room for frequent complaints as to disparity of treatment, and that the most simple and equitable arrangement would be to charge fees with reference to the actual time taken by the audit staff. After prolonged consideration, the Government recently ordered that the fees should be charged on the actual time basis on the following scale :—

	Fees to be charged per diem. RS. A. P.
Central banks	5 8 0
Urban banks with a working capital of Rs. 1 lakh and over	5 8 0
Urban banks with a working capital of less than Rs. 1 lakh and other types of societies liable to pay fees under the rules	3 12 0

NOTE.—In estimating working capital, the reserve funds of societies invested outside are excluded

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Arbitration.

56. Section 51 of the Madras Co-operative Societies Act provides for a summary and inexpensive method of disposal of co-operative disputes and saves societies the elaborate procedure of a regular trial and all the trouble and worries of an expensive and protracted litigation in civil courts. All references have to be made to the Registrar or to the person exercising the powers of a Registrar under the above section in a district. Under the existing practice, Deputy Registrars and Assistant Registrars in charge of districts take on file and dispose of complicated cases, but ordinary disputes which form the greater number are referred to Co-operative Sub-Registrars or Honorary Arbitrators, selected generally from the governing body members of unions or directors of central banks or legal practitioners who can spare the time for the purpose.

The Honorary Arbitrators are given allowances at the following rates to meet their travelling and other expenses out of the budget allotment placed at the disposal of the Registrar by the Government :—

Daily allowance	Rs. 3.
Railway fare	1½ second class.
Mileage	As. 4 a mile.

Generally, the expenditure incurred in connexion with the allowanes of *each* arbitrator during the financial year should not exceed Rs. 50.

Rule XV of the rules framed under the Act empowers the Registrar to prescribe a fee for deciding a dispute or revision petition as the case may be, under section 51 of the Act. In virtue of the exercise of the powers vested in him, the Registrar has prescribed—

(1) a fee of Re. 1 per plaint relating to monetary disputes touching the business of societies when the amount or value of the subject-matter in dispute exceeds Rs. 150;

(2) a fee of Re. 1 on all revision petitions other than those referred to in item (3) infra; and

(3) a fee of Rs. 50 on each plaint relating to non-monetary disputes and for each revision petition thereon.

Supersession.

57. A new section (43) was embodied in the Madras Co-operative Societies Act VI of 1932 empowering the Registrar to appoint a nominee of his to manage the affairs of a society, if in his opinion the society is not working properly and is mismanaged. From the time this provision has been in force, the committees of 85 societies were superseded; on 30th June 1939, the committees of

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20 societies were under supersession; of these four were in charge of non-officials and the rest in charge of departmental officers. The total assets to be collected in these societies on the dates of their supersession were 7·67 lakhs under principal and Rs. 1·32 lakhs under interest. Before the close of the year Rs. 5·16 lakhs and Rs. 0·93 lakh were collected under principal and interest respectively.

As regards the enforcement and usefulness of the section, the Registrar says:

> "The criticism often levelled is that it serves as a weapon for the department to interfere in the affairs of societies and coerce them to act according to its wishes. I must emphatically repudiate this charge. Any action that is taken under this section is in the interests of the societies and their members and creditors. The powers of supersession are only sparingly exercised and in only really necessary cases, where the alternative is the extreme step of liquidation. And the results achieved in these cases amply justify the action taken and should disarm any criticism levelled against the application of this provision of the Act. Until the members of societies are properly educated in the principles of co-operation and learn to sink their individual differences for the common good of all the members and to run the institutions properly, statutory intervention of this kind is called for and is justified. Financing banks are always consulted before affiliated societies are superseded, and as a rule, they agree to the course proposed. Instances are not wanting where the members of committees, realizing their own incompetency to manage the societies properly, did not object to the proposals for supersession; and in one recent case the members themselves requested me to exercise the powers under section 43 of the Act and to keep the committee under supersession for a time." (Administration Report for 1938–39.)

In the actual working of societies or in the course of reconstruction and consolidation of societies, it is generally found that a good number of societies, though financially sound, do not have proper panchayats to manage their affairs. In such cases, to avoid the drastic remedy of cancellation of registration, the societies adopt a by-law, for entrusting the management of the society to a single person, either a member or a non-member, who is entrusted with all the powers of the panchayat. When affairs are brought to a normal state, a proper panchayat is again constituted. This is a kind of "voluntary supersession" and the general body takes the responsibility for the appointment of the agent and for his actions. On the 30th June 1939 there were 961 societies under the management of agents appointed under such a by-law.

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Liquidation.

58. Liquidation is a statutory function of the Registrar under the Madras Co-operative Societies Act. Sections 44 and 45 of the Act prescribe the procedure to be followed where, for any reason, the registration of a society is cancelled. When a society is ordered to be dissolved, the Registrar is required to appoint a liquidator. In this Province, Deputy Registrars and Assistant Registrars are, as a rule, appointed liquidators. They are assisted in the discharge of their duties by a special staff of liquidation inspectors at the rate of one for every 25 societies in liquidation.

A society loses its corporate existence on the cancellation of its registration and the control of the society and the whole of its assets vest in the liquidator, who is empowered to realize such assets by sale or otherwise and pay off its liabilities. The powers of the liquidator are defined in section 47 of the Co-operative Societies Act. The orders of the liquidator, commonly known as "contribution orders," are enforced under the provisions of section 57-A of the Act or by application to a civil court. Though the Act also provides for their enforcement through the Revenue Department, in actual practice this is not being done for some years past.

Under the orders of the Government, the liquidator appropriates 7½ per cent of the collection towards liquidation costs. A major portion of this is credited to the Government towards the cost of the liquidation Inspectors employed by the Government and the balance is utilized for expenditure incidental to liquidation work such as the maintenance of temporary non-official staff in areas where this is necessary, printing of forms, etc.

Owing to the policy of consolidation and rectification of societies pursued by the Registrar, a good many bad societies were liquidated in recent years. The following two statements show the number of societies liquidated in each of the last eight years, the assets to be realized, the liabilities to be paid off, etc., and give an idea of the progressive increase in liquidation work :—

I

Year.	Number of societies in liquidation at the beginning of the year.	Number cancelled during the year.	Total.	Number of societies, the liquidation of which was completed during the year.	Number pending at the end of the year.
1930–31 ..	612	516	1,128	452	676
1931–32 ..	676	629	1,305	394	911
1932–33 ..	911	691	1,602	449	1,153
1933–34 ..	1,153	462	1,615	294	1,321
1934–35 ..	1,321	281	1,602	235	1,367
1935–36 ..	1,367	334	1,701	247	1,454
1936–37 ..	1,454	195	1,636	270	1,366
1937–38 ..	1,366	235	1,601	225	1,376

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II

Year.	Assets to be collected.	Assets collected in the year.	Assets pending collection at the end of the year.	Liabilities pending payment at the end of the year.
	RS. LAKHS.	RS. LAKHS.	RS. LAKHS.	RS. LAKHS.
1930–31 ..	23·26	3·39	19·87	12·65
1931–32 ..	40·73	8·15	32·58	21·85
1932–33 ..	54·73	9·14	45·59	29·95
1933–34 ..	69·13	9·60	59·53	37·98
1934–35 ..	71·76	9·94	61·82	40·84
1935–36 ..	86·48	11·45	75·03	46·96
1936–37 ..	83·01	13·30	69·71	46·77
1937–38 ..	82·42	13·42	69·00	48·35

Execution.

59. Under the rules framed under section 43 of Act II of 1912, the decision or award of the arbitrators was enforced either on a requisition to the Collector or on application to a civil court having jurisdiction over the subject-matter of the decision or award. Under the executive instructions of the Government, the decisions or awards that could be executed through the Revenue Department in any one year was, however, restricted to 40 cases for each taluk. This was a great handicap. The execution of awards or decrees through civil courts was slow and protracted. The Townsend Committee considered the question and recommended the employment of a special staff for execution, the cost of the staff being recovered from the defaulters by levying fees. In pursuance of this recommendation, the Government, when they took up the revision of the Co-operative Societies Act (II of 1912), inserted a new section 57-A in the Madras Co-operative Societies Act VI of 1932, empowering the Registrar to recover any amount due under a decision or award by attachment or sale of the property of defaulters. Detailed rules have been framed under the Act to regulate the execution of decrees, or awards filed by societies.

Deputy Registrars and Assistant Registrars who have been invested with powers in this behalf control and regulate execution work in the districts. They are assisted by a special staff of Inspectors known as " sale officers."

Under the rules framed under the Act, the Registrar has prescribed a schedule of fees for execution of decrees.

Co-operative Department.

60. In the initial stages of the movement the Registrar personally supervised and inspected every society and trained his small staff. In 1915–16 the staff consisted of one Registrar in the Provincial Service Cadre, six Assistant Registrars, who were selected from Deputy Collectors and 60 inspectors; in 1918–19, the number of Assistant Registrars was 11 and that of Inspectors 85. With the programme for expansion of the movement in

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1919–20, the number of Assistant Registrars was raised to 18 and the Inspectors to 184, at a total cost of Rs. 3·08 lakhs. At the end of 1923–24, the number of societies had risen to 9,472 and there were 23 Assistant Registrars with one for each of the then existing districts and 277 Inspectors, and the total cost of the department was Rs. 6·28 lakhs. Of the 23 Assistant Registrars, only 12 were Deputy Collectors, the rest being direct recruits, Deputy Tahsildars or Tahsildars.

In 1924–25, there was a reorganization of the superior staff. The scale of pay of Assistant Registrars was reduced and one such officer was appointed to each district. Nine posts of Deputy Registrars were created, of whom eight were placed in supervisory charge of groups of districts and one was Personal Assistant to the Registrar. It was intended that Deputy Registrars should pay adequate attention to general administration and particularly to the organization of non-credit societies.

In pursuance of the Townsend Committee's recommendation that a Deputy Registrar should be appointed for each district, a reorganization of the superior staff was carried out again in 1929 and all districts except five were converted into Deputy Registrar's charges. The designation of Assistant Registrar was changed into Sub-Deputy Registrar and subsequently as Co-operative Sub-Registrar and one such officer was appointed to work under each Deputy Registrar. An officer of similar status (Sub-Deputy Registrar) was placed in independent charge of each of the excepted districts, in addition to the Deputy Registrar of the adjoining district holding charge over it and exercising control over the Assistant Registrar and his staff. An additional post of a Deputy Registrar was sanctioned for one of these districts in 1938 and at present there are only four districts, viz., Kurnool, Nellore, Bellary and West Godavari which do not have a separate Deputy Registrar. There is no separate Deputy Registrar for Ramnad, the district being included in the jurisdiction of the Deputy Registrar, Madura. There is however a separate Co-operative Sub-Registrar for the district working under the Deputy Registrar, Madura.

With the development of land mortgage banks, three Deputy Registrars were sanctioned separately for this branch of work and they are assisted by 31 Co-operative Sub-Registrars.

The arrangement of filling the posts of Deputy Registrars from Deputy Collectors was given up in 1931 with a view to make the department self-contained.

A Joint Registrar was appointed for a short period in 1920–21 but the post was abolished in deference to the wishes of the Legislative Council. It was revived in 1926, to provide relief for

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the Registrar, who was overburdened with work. The following statement shows the particulars of the staff of the department (other than the Registrar and Joint Registrar) on 30th June 1939 :—

Statement showing the distribution of staff on 30th June 1939.

District.	Deputy Registrars.	Co-operative Sub-Registrars and Assistant Registrars.		Senior Inspectors.				Junior Inspectors.									Clerical staff.		
		General duty.	Execution.	Credit.	Non-credit.	Concurrent audit.	Special staff.	Audit.	Administration.	Liquidation.	Loan and sale.	Concurrent audit.	Execution.	Scheduled classes.	Non-credit.	Special staff.	Junior Inspectors.	Routine clerks.	Peons.
Vizagapatam	1	1	1	1	1	..	1	11	4	1	..	1	6	..	1	..	4	5	16
East Godavari	1	1	..	1	1	..	..	12	3	1	..	2	4	9	1	1	4	6	11
West Godavari	..	1	..	1	1	..	..	7	3	1	1	..	2	2	..	..	2	3	6
Kistna	1	1	..	1	1	1	1	9	3	1	..	2	5	4	..	..	4	5	14
Guntur	1	1	..	1	1	..	..	10	2	3	..	1	5	10	..	..	4	5	14
Nellore	..	1	..	1	1	..	..	8	3	2	..	..	2	3	..	..	2	2	5
Chittoor	1	1	..	1	..	..	..	5	3	2	..	1	3	1	1	2	3	4	8
Anantapur	1	1	..	1	1	..	..	9	4	3	3	1	..	2	..	..	3	4	9
Bellary	..	1	..	1	1	..	..	5	4	1	1	..	3	2	..	1	2	2	6
Cuddapah	1	1	..	1	1	..	..	5	3	2	..	..	2	4	..	1	3	5	7
Kurnool	..	1	..	1	1	..	..	5	3	2	..	..	2	2	..	..	2	3	6
Madras	1	..	..	1	1	3	..	3	1	1	..	10	1	2	..	..	3	3	5
Chingleput	1	1	1	1	1	..	..	17	3	4	..	2	4	6	..	..	4	6	11
North Arcot	1	1	..	1	1	..	..	15	4	4	..	2	4	4	..	..	4	4	12
South Arcot	1	1	1	1	1	..	1	13	3	5	..	1	4	7	1	..	4	6	12
Tanjore	1	1	1	1	1	1	..	17	3	3	1	2	5	20	..	..	5	6	14
Trichinopoly	1	1	..	1	1	..	..	10	3	2	..	5	3	3	..	..	4	6	10
Madura	1	1	..	1	1	..	..	10	4	2	2	4	2	1	..	12	4	5	9
Ramnad	..	1	..	1	..	..	..	6	1	3	..	1	3	1	..	..	..	..	6
Tinnevelly	1	1	..	1	1	..	..	11	3	3	3	2	6	4	..	..	4	5	16
Coimbatore	1	1	..	1	1	..	..	11	3	2	1	1	2	3	..	..	4	4	9
The Nilgiris	..	..	..	1	1	..	..	2	1	..	1	..	..	..	..	..	..	..	4
South Kanara	1	1	..	1	1	..	..	8	3	2	..	..	2	3	..	..	3	4	8
Malabar	1	1	..	1	1	..	..	11	4	6	..	1	4	4	..	2	4	4	13
Salem	1	1	2	1	1	..	..	11	2	4	3	..	3	3	1	6	4	4	10
Land Mortgage Banks, North	1	11	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	2	13
Land Mortgage Banks, South	1	9	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	2	11
Land Mortgage Banks, Central	1	11	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	2	13
Registrar's Office ..	1	2	..	8	..	..		..	..	..	..	..	..	..	..	14	..	7	12
																		1†	1§
Central Co-operative Institute, Madras ..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	2	1‖
																		3‡	2
Madras Provincial Marketing Co-operative Society	..	1	..	1	..	..	..	..	..	..	..	..	..	..	..	..	..	2	2
Christian Central Bank.	..	1	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Total ..	23	58	6	34	23	5	3	231	73	70	16	39	77	100	5	25	94	122	296
		64 *																	

* Total number of posts of Co-operative Sub-Registrars 67
Three posts of Co-operative Sub-Registrars for Land Mortgage Banks sanctioned in April 1939 not filled 3
64

† Head Accountant.
‡ 1 Principal and 2 Lecturers.
§ Attender.
‖ Daffadar.

An officer of the Indian Civil Service is deputed to the department periodically for training as Additional Joint Registrar. Three such officers were so trained and the fourth officer is now undergoing training.

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The following statement shows the expenditure incurred by Government on the co-operative movement for 10 years ending with 1938–39 :—

Year.	Working capital (in lakhs of rupees).	Government expenditure (in lakhs of rupees).	Percentage of Government expenditure to working capital.
1929–30	1,799	10·11	0·56
1930–31	1,800	11·59	0·64
1931–32	1,699	11·32	0·67
1932–33	1,734	9·86	0·57
1933–34	1,632	10·85	0·66
1934–35	1,671	8·72*	0·52
1935–36	1,763	8·79*	0·50
1936–37	1,851	8·56*	0·46
1937–38	2,005	9·42*	0·47
1938–39	2,270	9·63*	0·42

* The figures represent the net expenditure only.

The cost of management of all classes of co-operative societies was 26·17 lakhs for 1937–38 and Rs. 27·92 lakhs for 1938–39. The percentage of this expenditure to the working capital of all societies was 1·3 for 1937–38 and 1·2 for 1938–39. The percentage of Government expenditure to the total non-official expenditure was 36·9 in 1937–38 and 34·5 in 1938–39.

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CHAPTER III.—RURAL INDEBTEDNESS.

Historical retrospect of the problem.

61. The problem of rural indebtedness in this Province has received the attention of men in public life and the Government and constituted the subject-matter of periodical investigation and of legislation by the Government. It is not, therefore, necessary for us to enter into an elaborate discussion of the subject; nor have we had the time to address ourselves to a detailed examination of all the aspects of the problem. An appreciation of the seriousness of the problem and of our recommendations on the subject would, however, require a historical review of this question and some understanding of the difficulties that have faced agriculture and the agriculturist particularly during the period of economic depression. We propose then briefly to set out the historical and other relevant facts.

Mr. (Sir) F. Nicholson's enquiries.

In his classic report on "Land and Agricultural Banks" (1895), Mr. (later, Sir) Frederick Nicholson made an attempt to assess the total rural debt of the Presidency. His conclusion was that the total rural mortgage debt was somewhere between Rs. 18 and Rs. 20 crores. As regards all other debts, i.e., debts on pledge and personal credit, there were absolutely no data, but according to his calculations, grain and non-mortgage and cash debts were estimated at about Rs. 25 crores outstanding in any given year at the beginning of harvest, or 18 crores annually borrowed in this form at from 12 to 24 per cent. The total rural debt in 1895 was, therefore, about Rs. 45 crores at the beginning of any harvest. He was of opinion that the load of debt borne by the Madras ryot was heavy, that its interest was high (commonly 18 per cent) and that it had been incurred with but a minimum result in profit.

In 1928 the Royal Commission on Agriculture in India recognized the seriousness of the problem of rural indebtedness and stated in most emphatic terms that "the worst policy towards debt is to ignore it and do nothing."

Recent Enquiries.

In recent years, several enquiries have been made into this problem. The Madras Provincial Banking Enquiry Committee estimated the total debt of the Province at about Rs. 150 crores. The Committee has stated :—

> "Each source from which we have taken these figures cannot by itself be regarded as very reliable, but considering all these facts we considered that at the maximum in the year the total debt is in the neighbourhood of 150 crores of rupees and that the debt which continues from year to year is at present about Rs. 70 crores.

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> " Though the bulk of this debt is secured on land and though the vast majority of it is agricultural, it is not possible to ascertain precisely how much should be classified as agricultural and how much as industrial (non-agricultural industries) or commercial or domestic."

After the world economic crisis of 1929–30, there was a large increase in the rural indebtedness of the Province. In 1934, Dr. P. J. Thomas, one of our members, estimated that the total debt of the Province had increased to Rs. 200 crores. In the same year, Sri T. A. Ramalingam Chettiyar, one of our members, introdoced a Debt Conciliation Bill in the Madras Legislative Council and in connexion with this the Government appointed Mr. W. R. S. Sathianathan to investigate the problem of rural indebtedness as affected by the economic depression. In the light of his investigations, which lasted six months, Mr. Sathianathan estimated the total agricultural debt of the Province at about Rs. 210 crores. Classified according to security, 47 per cent was mortgage debt, 50 per cent was unsecured debt and 3 per cent debt on the security of movables. All estimates on this subject, based as they are on imperfect materials, must be accepted with reserve.

Thus the total rural debt of the Province has increased four and a half times in the course of 40 years, i.e., 1895 to 1935. But in the meantime prices had also increased and therefore the value of money had fallen.*

Causes of indebtedness.

62. It is true that great changes have taken place in the socio-economic life of the people and several factors have contributed to the increase of indebtedness. So long as produce, and not the land, was the money-lender's security and immovable property was not sold for debt, individual debt was moderate in actual amount. As soon however as property right was fully acknowledged and realized, the load of mortgage debt rapidly increased in amount. The other factors which contributed to this increase are (1) facilities for borrowing and the consequent expansion of credit, (2) ancestral debt, (3) increase of population without a corresponding increase of return from land, (4) poverty with unproductive soil and irregularity of income, ignorance and improvidence, (5) the law of limitation leading to borrowing on usurious terms including compound interest, and (6) the revenue system of a fixed demand. Litigation, village factions, ceremonies, etc., are yet other causes of indebtedness.

We need not discuss each of the causes of indebtedness in any detail. We shall content ourselves with drawing attention to one or two important of them. An important factor which is often forgotten in matters of discussion on indebtedness is that, when there is an increase in the total and per capita income owing to increase in trade or manipulation of currency or rise in prices,

* Dr. P. J. Thomas—The Problem of Rural Indebtedness (1934)—see graph acing page 132.

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the volume of indebtedness also increases. The availability of money for lending and of surplus income to repay are the predisposing conditions for heavy borrowing. During the last fifty years those factors have had a marked influence on indebtedness, at any rate till the economic depression set in. Some of the agriculturists borrowed more, because they could, rather than because they had to. The tendency of the ryot to encumber himself when credit becomes facile is more or less universal and the statutory facilities given to the creditors in the recovery of debts resulted in a very large and sometimes unnecessary credit being given to all classes of ryots. "Debt is allied to prosperity and poverty alike; while its existence is due to poverty, its volume is due to prosperity."

Whether poverty is the cause or effect of indebtedness is a matter of academic interest. But owing to the small or uncertain return from land and the small size of holdings, the agriculturist is driven to borrow: "Because he is a cultivator he must borrow to secure his crop; because his holding is small and has to support more persons than it can feed, he must increase his borrowings to keep those persons alive while his crop is in the ground. His caste and his religion compel him to borrow a third time to meet his customary festival or customary ceremony. As the debt grows repayment of it becomes more difficult until at last some calamity comes upon him, repayment becomes impossible and he sinks into a state of chronic indebtedness from which death alone can release him." The Indian Statutory Commission bore testimony to the depth of poverty of the mass of India's population "the pervading presence of which cannot escape notice."

The detailed economic surveys made in 141 select villages in the Province for the purpose of Mr. Sathianathan's enquiry have shown that the purposes for which borrowing is resorted to by the ryots may be classified as follows:—

Purpose of borrowing.	PER CENT.
Payment of prior debts	25·1
Marriage and other ceremonies	10·5
Payment of land revenue	3·3
Relief of distress	6·1
Agricultural expenses	10·0
Improvements to land	4·4
Education of children	1·4
Trade	12·9
Purchase of land	13·8
Construction of houses	5·6
Other expenses	6·9
Total ..	100

According to this classification, the purchase of lands accounts for 13·8 per cent of the total borrowings. This seems to be an underestimate. One of the major purposes for which loans

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were taken during the boom period was the purchase of new lands. The enquiries in select villages during resettlement operations during the period 1930–37 showed that the percentage of loans for this purpose was 64 in Salem hill villages, 44 in Salem southern taluks, 30 in Nellore delta, nearly 30 in Salem northern taluks, 42 in Guntur delta, and 35 in Guntur uplands.

Causes of borrowing distinguished from causes of indebtedness.

63. The purposes of borrowings need to be distinguished from the causes which lead to indebtedness. Agriculture is an industry and requires capital and a majority of agriculturists must borrow to carry on the industry. Borrowing alone is not bad, because borrowing as such does not lead to debt; it is the failure to repay that results in debt, and such failure to repay is more often than not due to causes beyond the control of the ryot. Agriculture is almost wholly dependent on the forces of nature and is exposed to a peculiar degree of risk. Drought, floods, vagaries of climate and fertility hamper agricultural operations and render their result uncertain. Agricultural production being undertaken by a large number of unrelated units cannot be easily gauged or readily controlled. While demand is relatively inelastic and industrial production is continuous, agricultural production is seasonal. Further, agriculture is liable to the effects of rapid changes in the value of money. The prosperity of agriculturists is assured during the period of a rise in prices, while a fall in prices entails a corresponding depression and a sudden fall such as that of 1930 to 1935 brings widespread bankruptcy. The prosperity of the agricultural industry and the regularity of agricultural income, which supplies the means of repayment, are thus determined largely by external rather than internal factors. It is these factors that affect the ability of the debtor to repay debt. His position has become one of acute difficulty during the last decade.

Unproductive debt.

64. We may here draw attention to some of the salient features of the situation. Most of the rural debt in the Province is unproductive. From Mr. Sathianathan's classification it appears that 25 per cent of the amount borrowed by the ryots in the villages surveyed was for the payment of prior debts. In fact, it is the biggest single item in the total borrowings made by the ryots. The classification also reveals the following results :—

	PER CENT.
Debts for—	
Productive purposes	37·1
Unproductive purposes	41·7
Education of children	1·4
Trade	12·9
Miscellaneous	6·9
Total ...	100

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Debts for productive purposes excluding trade and education account for only 37·1 per cent while those for unproductive purposes account for 41·7 per cent. A good portion of this amount is for the payment of prior debts. Though Mr. Sathianathan contends that the alleged extravagant expenditure on ceremonies by ryots is not borne out by statistics, he admits that about a fourth of the unproductive debt is incurred on this account. It is this unproductive nature of the bulk of rural debt which is a matter for anxiety.

Proportion of agricultural debtors.

65. Mr. Nicholson considered that three-fourths of the rural population of the Presidency borrowed for one purpose or another. Mr. Sathianathan's enquiries have disclosed that the agricultural population consists roughly of 54 per cent of registered holders, 18 per cent of tenants and 28 per cent of labourers and the percentage of those free from debt closely examined is as follows :—

Registered holders	21
Tenants	23
Farm labourers	36

This accords more or less with the percentage of ryots in debt disclosed in the course of resettlement operations. The percentage of ryots in debt in select villages in the districts where resettlement operations were made between the periods 1930–1937 ranged from 54 to 81; but in the majority of cases the percentage exceeded 70. It is therefore evident that the bulk of the ryots are in debt.

It is true that the average debt per head increases with assets and it is seen from the enquiries made by Mr. Sathianathan that the debt per head of farm labourers who came under the village surveys was Rs. 15, while the debt per head of registered holders and tenants paying land revenue or rent of Re. 1 to Rs. 100 was Rs. 211 and that of those paying land revenue or rent of Rs. 100 and above was Rs. 918.

Proportion of small and medium holders.

66. While the proper basis to judge the burden of debt is the proportion which it bears to assets it should be remembered that the vast mojority of the ryots of this Province are small and medium landowners and occupancy tenants with hardly "economic holdings." The following statement shows the number of pattas classified according to the land revenue paid by them, the extent of holdings under each group, and the average holding as they stood in 1925–26, 1930–31 and 1935–36.

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	Fasli 1335 (1925–1926).			Fasli 1340 (1930–1931).			Fasli 1345 (1935–1936).		
	Number of pattas.	Size of holdings.	Average holdings.	Number of pattas.	Size of holdings.	Average holdings.	Number of pattas.	Size of holdings.	Average holdings.
	LAKHS.	ACS. LAKHS.	ACS.	LAKHS.	ACS. LAKHS.	ACS.	LAKHS.	ACS. LAKHS.	ACS.
Rupee one and less.	10·86	6·02	0·55	12·12	6·79	0·55	13·60	7·46	0·55
Rs. 10 and less but over Re. 1.	29·37	89·98	3·00	31·69	96·48	3·00	34·70	102·35	3·00
Rs. 30 and less but over Rs. 10.	9·87	75·60	7·66	10·07	77·11	7·66	10·37	75·05	7·2
Rs. 50 and less but over Rs. 30.	2·23	30·04	*13·00	2·26	29·22	12·9	2·24	27·86	12·4
Rs. 100 and less but over Rs. 50.	1·22	26·23	21.00	1·17	25·92	22·00	1·25	25·43	20·4
Rs. 250 and less but over Rs· 100.	0·462	19·62	42·75	0·469	19·30	41·00	0·475	19·26	40·5
Rs. 500 and less but over Rs. 250.	0·094	8·43	89·33	0·097	8·49	*88·00	0·105	8·80	* 84·00
Rs. 1,000 and less but over Rs. 500.	0·029	5·25	176·00	0·028	5·51	197·00	0·03	5·63	184·7
Over Rs. 1,000 ..	0·010	5·59	532·00	0·011	6·51	592·00	0·013	7·30	555·7

NOTE.—Figures relating to the portion transferred to Orissa have also been included for purposes of comparison. The extent of the area in acres of holdings and the number of simple and joint pattas transferred to Orissa in 1935–36 were 3·70 lakhs and 1·08 lakhs respectively.

According to the statement for fasli 1345, 97·02 per cent of the pattas (including the portion of the Province transferred to Orissa) pay an assessment of Rs. 50 or less and 76·93 per cent Rs. 10 or less. The total holdings in the Province comprise 27·92 million acres both wet and dry together and as this extent pays an assessment of Rs. 60·95 millions, fully assessed land pays on the average Rs. 2·18 per acre. 76·9 per cent of the pattas cover holding to the extent of 39·3 per cent of the total and have an area of 2·3 acres on the average.*

While the decennial increase in population between 1921 and 1931 was 10·4 per cent, the increase in the total holdings during the same period was 5·7 per cent. Assuming the same annual percentage increase, the increase in population for the quinquennium 1931–36 would be 5·2 per cent; but the rate of increase in the total holdings for this period as may be gathered from the reports on land revenue and settlement works out to only 1·2 per cent.

Thus it is the small and medium landholders and occupancy tenants paying rent or assessment from Re. 1 to Rs. 100 that constitute the bulk of the ryot population and in consequence the foundation of agricultural industry in the Province. As has been stated, though the debt per head amongst them was about Rs. 211, the seriousness of their position may be gauged from the fact that the debt per acre amongst them, as revealed by the economic

* Since one individual may have holdings covered by several pattas or be a joint pattadar with several others, the number of pattas does not correspond exactly to the number of holdings.

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enquiries already referred to, was Rs. 72 and the debt per rupee of assessment was Rs. 29 as against Rs. 44 and Rs. 8 respectively amongst ryots paying land revenue or rent of Rs. 100 and above.

Economic depression : Fall in agricultural prices.

67. The position of the ryot, bad as it was, was rendered worse by the world-wide economic depression and the catastrophic drop in the prices of agricultural produce. The trend of prices of staple food grains in the Province during the two decades forms an instructive study. The following table shows the index numbers of prices of staple food grains :—

Index numbers of prices of rice, cholam, cumbu and ragi with the 3-year moving averages.

Year.	Rice.		Cholam.		Cumbu.		Ragi.	
	Index number.	Moving average.	Index number.	Moving average.	Index number.	Moving average.	Index number.	Moving average.
1918 ..	91	..	93	..	85	..	86	..
1919 ..	112	100	116	100	116	100	118	100
1920 ..	97	101	91	98	99	101	96	101
1921 ..	93	93	87	85	88	90	90	90
1922 ..	89	90	76	81	82	84	83	85
1923 ..	88	92	80	81	83	85	82	86
1924 ..	99	93	88	82	89	84	92	86
1925 ..	92	94	79	83	81	85	83	87
1926 ..	92	92	81	81	84	83	85	85
1927 ..	92	90	82	80	85	82	86	84
1928 ..	85	85	76	74	77	77	82	80
1929 ..	78	75	65	63	70	66	71	68
1930 ..	61	64	47	52	52	55	51	56
1931 ..	52	53	44	44	43	47	45	48
1932 ..	47	46	40	40	45	43	47	43
1933 ..	40	45	35	40	41	45	36	42
1934 ..	47	45	44	41	49	46	43	43
1935 ..	49	48	45	44	47	47	50	47
1936 ..	48	49	43	44	46	47	47	49
1937 ..	50	49	45	43	47	45	49	46
1938 ..	50	..	41	..	41	..	43	..

* Figures adopted from the Paper on "Recent Trends in the Price of Rice in Madras" by Dr. P. J. Thomas.

It is not our purpose to discuss the fluctuations of agricultural prices except to point out the effect of the precipitous fall of agricultural prices on the general economic condition of the ryots. The latter half of the decade ended 1919–20 was marked by a rise in prices due to the world shortage of food-supplies consequent on the war. The prices were more or less steady or fluctuated within narrow limits between 1920 and 1927 when a decline set in. The slump became marked in 1930 and reached rock bottom during the years 1933 and 1934. A steady rise became noticeable thereafter but it was still far below the pre-depression

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level. The prices of industrial or money crops also fell enormously as may be seen from the following statement :—

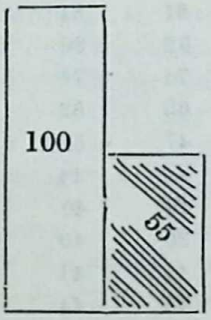
Index numbers of wholesale prices in the Madras Presidency (1928–29 to 1936–37).

Year.	Groundnut.	Cotton.
1928–29	100	100
1929–30	85	85
1930–31	55	62
1931–32	63	56
1932–33	59	57
1933–34	39	58
1934–35	57	63
1935–36	58	62
1936–37	62	60

The following estimate and chart as regards the fall in the value of agricultural production of this Province may in this connexion be of some interest :—

	Value 1928–29 (in crores).	Percentage fall between 1928–29 and 1932–33.
	RS.	
Madras	180 78	45·2

AGRICULTURAL INCOME.



Some attempts have been made to arrive at the following estimate of the purchasing power of the agricultural community on the basis of the proportion of population directly dependent on agriculture, assuming that the number of persons dependent on each earner is constant, that one-half of the agricultural labourers are paid in kind and that the amount of food-crops consumed per head is the same* :—

	Purchasing power 1928–29 (in crores).	Percentage fall between 1928–29 and 1932–33.
	RS.	
Madras	131·4	44·7

* Chapter XV, pages 339 and 349—Economic Problems of Modern India—Edited by Professor Radhakamal Mukerjee.

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Factors affecting ryot's expenditure.

68. There is generally speaking no reduction in the ryot's budget in keeping with the fall in the price of his produce. It is difficult for him to curtail the costs of production at once or to the extent justified by the fall in prices. There is again no corresponding fall in the prices of manufactured goods—however limited a proportion of his needs this may be—because industrial prices always lag behind and the effect of the fall, if any, will be slow to get down to retail prices. The interest on debts and instalments of principal are in village conditions a very large proportion of the payments that have to be made in cash. The real trouble, therefore, is that the contracts fixed in money take no account of the variation in the purchasing power of money and cannot take account of them while the banker or money-lender is a dealer in money and not in purchasing power. As there is no equivalent decline in overhead charges to compensate for his diminished income, the ryot finds himself caught in a dilemma. Agricultural economy gets considerably upset. This is what happened during the period of depression.

It is true that the depression was preceded by a boom but it is well known that the gains derived during the boom do not compensate the loss suffered during the slump because the increased income of the boom is not saved but consumed in a poor community. And further the anticipation of continued prosperity leads to borrowing rather than to saving so that the depression finds the ryot with a debt and not with a reserve. The net effect of the cycle is a loss to the agricultural industry.

Pressure of creditors.

69. To this must be added the psychological effect which such depression generally produces upon creditors and debtors and the consequent disturbance in their normal relations. The period of depression witnessed a contraction of credit business by money-lenders and the recovery, often coercive of their debts. Owing to the low prices of produce, land values declined and the payment of the pre-depression debts necessitated the sale or transfer of land—the bulk of their assets. It is difficult to generalize from the statistics regarding sales and mortgages available from the registration offices, but certain figures furnished by the Inspector-General of Registration to Mr. Sathianathan in respect of some typical villages in Malabar and South Kanara for the five years from 1930 to 1934 indicated that there was a steady increase from 1930–33 in the total area that had changed hands, that there was a rise in the area sold to non-agriculturists, that the area mortgaged by agriculturists to non-agriculturists dropped steadily from 1930–34 showing a steady shrinkage of fresh credit. For the Province as a whole the sales recorded the lowest figure in 1931. There has, however, been a steady rise since then. But one is inclined to attribute the rise not so much to the desire of the people to invest their capital in land as much to the fall in agricultural

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prices and the consequent pressure of creditors on ryots to repay their debts. It is common knowledge that a large number of sale deeds record only the closing of a debt by transfer of assets.

Proportion between ryot's assets and liabilities.

70. The pressure of debt, owing to the sharp fall in agricultural prices, must have become much more severe. The pressure of the debt is due less to its absolute volume than to the changed relation between income and liabilities. The investigations made in connexion with Mr. Sathianathan's inquiry in respect of 541 landholding families showed that the relation of debt to the value of landed property before the depression was 9 per cent and during 1935 it was 20 per cent. We are not however sure of the correctness of the position because these figures do not accord with those gathered from the enquiries showing the indebtedness of members of co-operative societies in ten districts. These showed a close approximation between the fall (or rise) in the value of assets and liabilities; while in 1928, the value of both assets and liabilities of members was high, they both showed a fall in 1933; there was a gradual rise in seven of the ten districts in 1938. This apart, Mr. Sathianathan's enquiry does not disclose how many of such families were at the time of investigation actual or potential bankrupts.

Indebtedness and assets.

The investigations made by the Revenue officers in connexion with the resettlement operations during the period 1930 to 1937 have shown a more distressing position. The percentage of debt to the value of landed property of the *persons indebted* was 55 in Kurnool, 35·2 in Salem hill villages, 31·8 in Salem southern taluks and Musiri taluk. The percentage of debt to the value of landed property of *persons examined* (those who were indebted as well as those who were not indebted) was 23 per cent in Malabar, 24·65 in South Kanara, 45 per cent in Salem northern taluks and 64 per cent in Guntur (delta) and 59 per cent in Guntur uplaids, 46 per cent in Nellore delta, and 56 in Nellore uplands.

If debt constituted 20 per cent of landed assets as disclosed by Mr. Sathianathan's enquiry or more as disclosed by the enquiries made during resettlement operations, there should, however, be no room for alarm because this percentage compares favourably with that noticed in many of the European countries. Between the periods 1927–30 and 1934–35, the liabilities amounted to 15 to 19 per cent of the farm assets in Finland; in Switzerland, it represented one half and in some cases more than two-thirds of the farm assets. But in Europe much of the debt represents investment and is comparable to the capitalization of industry. Much of the debt here is unproductive.

High rates of interest.

71. The fact cannot also be overlooked that much of the rural debt carried a high rate of interest. Enquiries disclosed that the most common rates of interest on mortgages ranged from 7 to 9

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per cent and in other cases 12 to 18 per cent. Cases where interest was below 6 per cent and above 24 per cent were rare but then it must be remembered that the rates recorded in documents do not always represent the real state of affairs. Heavy or penal rates were and are generally enforced for non-payment of debts by parties within the stipulated period. There is also the practice of deducting at the outset an agreed sum for interest and paying only the balance to the borrower. When agriculture is not even in normal times, a prosperous industry, does not give a return of 2 to 5 per cent and is more a mode of living than a business, it is easy to realize how extremely difficult it was for the average agriculturist debtor to repay his debt during the depression.

Lack of subsidiary operations.

72. The acuteness of the problem could have been to some extent mitigated if the bulk of the ryots had other resources to fall back upon. During the period of falling prices, the increased disparity between income and expenditure led to a rapidly mounting indebtedness; it went up from Rs. 150 crores to Rs. 200 crores.* Agriculture ceased to be remunerative; some would prefer to call it a "deficit economy." The lack of subsidiary occupations on which the ryot could rely for keeping their heads above water made their position indeed very hard. We have no data to show the income of the ryots from industries ancillary or subsidiary to agriculture such as dairying, etc. There is, however, no doubt that, generally speaking, most of the ryots do not have the means of supplemental income. A survey of farm income in Japan for the period 1913 to 1914 showed that the proportion of income from subsidiary occupations to the total farm income ranged from 23 to 31 per cent, that, nevertheless it was held that most of the Japanese farmers "were heavily in debt precisely because of a lack of surplus income," and that for the majority of the Japanese farmers, agriculture as such was not a paying proposition. The reliance upon subsidiary occupations as a means of making both ends meet is widespread and is a basic pillar of Japan's agriculture. If in these conditions it is considered that most of the Japanese farmers are heavily in debt precisely because of lack of surplus income the position in a Province like Madras where there are comparatively few subsidiary occupations can easily be imagined.

Resume.

73. We may perhaps now summarize the position. The rural debt of the Province was even by 1930 very heavy reaching 150 crores of rupees. The agricultural depression which commenced towards the close of the year 1929 and which became acute during the following five years, took the ryots unawares, as it were, and upset the agricultural economy. The problem of rural indebtedness became a matter of grave concern and the

* No calculations have been made for the volume of indebtedness after 1934. The loans in co-operative societies which may be an indication of the general trend of borrowing show that indebtedness decreased for some years and increased again with the rise in prices.

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several adverse elements of the agricultural and economic situation to which we have alluded in the preceding paragraphs made it too acute to be borne by the ryot in spite of all his fortitude. The full significance of the adverse factors which affected rural life was not revealed earlier than 1930 chiefly because of the relatively high prices of agricultural produce and probably because of the ryot's apathy or inability to express his grievances in an articulate manner. But the depression shook his apathy and his industry alike to their foundations; he began to experience the tragic consequences of excessive agricultural indebtedness. The payment of his debt and interest swallowed up a larger proportion of the ryot's income than had been contemplated when the debt was contracted. Non-payment threatened to result in expropriation. A question of first-rate importance that presented itself to the Government and public men was not merely one of helping the ryot, but one of rehabilitating the agricultural industry. It became essential to bring about an immediate easing of the debt burden so as to make it easy for agriculturists to carry on.

Inadequacy of ordinary measures of relief.

74. Government action for the alleviation of the distress became urgent. The old remedies for the protection of interests of debtors or for financial aid to them were found too inadequate to offer a solution of the situation as it developed during the period of depression. The Usurious Loans Act, the Insolvency Act, the Land Improvements Loans Act, the Agriculturists' Loans Act, co-operative credit societies and land mortgage banks had and still continue to have their place in the economy of the agriculturist's social order but they were designed to meet a normal situation; they are not in the nature of an emergency remedy to meet a desperate situation. The Government was alive to the limitations of these legislative or other provisions and therefore set to itself the task of devising new remedies to mitigate the burden of rural indebtedness.

Form of state action in relation to rural indebtedness.

75. State action in relation to agriculturist debtors may be broadly divided into three main categories. The first consists of measures designed to give farmers relief from the burden of their debts by means of either reduction of the captial owing or conversion of their liabilities. The second category also consists of measures of direct intervention but of a nature less harsh upon creditors such as the repayment of loans by instalments, the suspension of cœrcive action and measures of distraint against debtors, the formulation of a special procedure to bring about direct agreement between debtors and creditors, the fixing of minimum prizes for the sale of expropriated property, etc. The third category includes measures of agricultural policy which do not alter the terms of the contract between debtors and creditors, provision of adequate credit facilities, etc. We now proceed to examine how far these forms of debt relief were granted in Madras.

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The Madras Debtors' Protection Act, 1935.

76. The Madras Debtors' Protection Act (VII of 1935) is the first legislative enactment intended for the protection of small debtors who have borrowed loans below Rs. 500. It prescribes maximum rates of interest for secured and unsecured debts and requires creditors to maintain proper accounts. This was found inadequate as it was not devised specially for the solution of the agricultural problem.

The Agriculturists' Loans (Amendment) Act, 1935.

77. The Agriculturists' Loans Act, 1884, was amended in 1935 and the Government undertook the distribution of State loans to agriculturists for the redemption of prior debts through a special staff of loan officers appointed for the purpose. Under this Act, the Government advanced Rs. 1·68 lakhs during 1935–36, Rs. 16·85 lakhs in 1936–37 and Rs. 7·41 lakhs in 1937–38. The relief afforded by the grant of loans for the discharge of prior debts in this manner was infinitesimal.

The Madras Debt Conciliation Act, 1936.

78. A practical manifestation of the public's serious concern at the agrarian crisis was the placing on the Statute Book of the Madras Debt Conciliation Act (1936) sponsored by one of our members, Mr. T. A. Ramalingam Chettiyar, for *voluntary* and amicable settlement of debts by bringing together agriculturist debtors and their creditors through the medium of Debt Conciliation Boards constituted for the purpose. Six such Boards were constituted in some districts of the Province but they did not achieve anything substantial by way of affording relief to the indebted ryots. The Boards were expected to mediate between the creditor and debtor and bring about a composition arrangement with the creditor. The hope that by virtue of the Act rural indebtedness would be scaled down appreciably did not materialize.

The Madras Agriculturists' Relief Act, 1938.

79. The next stage was reached when the Government, realizing the acuteness of the problem, got through the Legislature the Madras Agriculturists' Relief Act, 1938. With the passing of this Act, we proceed from the stage of voluntary settlement to a *compulsory* scaling down of rural debts in accordance with the provisions of the Act. This Act registers the first bold legislative attempt at compulsory reduction of rural debts and embodies some of the common features of debt relief legislation undertaken in Central and Eastern Europe—reduction of the capital amount of the debt, conversion by way of reduction of indebtedness through a lowering of the rate of interest payable on loans, fixation of a maximum rate of interest, etc. The Act came into force on 22nd March 1938 and is intended to give relief to indebted agriculturists by compulsorily scaling down their existing debts through ordinary civil courts, by fixing the maximum rate of interest, and by writing off of arrears of rent due to zamindars and other landholders. The Act is also intended to ensure a more satisfactory

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working of the Debt Conciliation Act. The main principles of the Debt Relief Act may be simply stated.

As regards debts incurred before 1st October 1932—

(*a*) all interest outstanding on 1st October 1937 shall be deemed to have been discharged and only the principal will be payable; or

(*b*) if the payment on account of principal or interest or both is twice the amount of the original principal, the whole amount shall be deemed to have been discharged and if the payment is less than double the principal, only the balance shall be paid.

In the case of debts contracted after 1st October 1932 the amount of the whole transaction shall be made out at 5 per cent simple interest on the original loan and only the balance after deducting all payments shall be payable. The rates of interest on debts so scaled down and on loans incurred after the coming into force of this Act may not exceed 6¼ per cent. The relief afforded by the courts under this Act during the period it has been in force from 22nd March 1938 to September 1939 is as follows :—

Statement showing the working of the Madras Agriculturists' Relief Act, 1938, during the 19 months ending with September 1939. Cases of voluntary settlement by parties without going to court are not covered by this statement.*

	Nineteen months ending with September 1939.
(1) Total amount involved in applications disposed of under sections 8, 9, 13, 18 (1), 19 and 21 during the period.	Rs. 3,92,54,616–3–11.
(2) Total amount as scaled down during the period.	Rs. 2,05,11,230–10–2.
(3) Total amount of reduction by scaling down and its percentage to amount originally due.	Rs. 1,87,43,385—9—9 47·7 per cent.
(4) Number of cases disposed of during the period.	111,388.
(5) Number of cases pending at the close of the period.	11,449.

Recommendations.

80. These measures of debt relief undertaken by the Government were in the nature of a counter attack against the severe economic depression. But we feel that the time has come when the system of Government action in relation to rural

* Development Department Press Note No. 56, dated Fort St. George, the th December 1939.

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indebtedness should pass from a haphazard to a systematic stage. We proceed to make our recommendations with this objective in view.

Need for amendment of Debt Conciliation Act—Compulsory scaling down.

81. We consider that the existing debt relief legislation should be effectively supplemented and strengthened in order that agricultural industry may be rehabilitated. The present procedure under the Debt Conciliation Act is that an agricultural debtor or any of his creditors may make an application for the settlement of debts giving the particulars mentioned in section 6 of that Act. On receipt of the application, the Board fixes a date and place for hearing the application and the necessary notices are sent by registered post to the debtor and each of his creditors. If, after examining the debtor, the Board considers it desirable to attempt to effect a settlement, a notice is issued calling upon all his creditors to submit statements with full particulars of the debts owed to them. The debtor and each creditor are then required to explain their case regarding each debt and if there is a dispute as to the existence or the amount of any debt due to any creditor or the assets of any debtor, the Board decides the matter after taking evidence and such decision is binding on all parties in all proceedings before the Board. The provisions of the Agriculturists' Relief Act by which the amount due as under the ordinary law is scaled down is taken into account by the Board. The Board then prepares a complete schedule of the creditors and of the assets and liabilities of the debtor. If the creditors to whom more than 50 per cent of the total amount of the debtor's debts is owing come to an amicable settlement with the debtor, the settlement is reduced to writing and signed by all the parties concerned and is registered within 30 days by the Chairman of the Board. It then operates as a decree of a Civil Court. If no amicable settlement is arrived at within 12 months from the date of application, the application is dismissed.

We consider that these provisions are not quite adequate to tackle the problem effectively. The settlement of debts under the Act is conditional by the consent of the creditors to whom more than 50 per cent of the total amount of the debtor's debts is owing. This consent is difficult in practice to secure. We suggest an amendment of section 14 of the Madras Debt Conciliation Act for dispensing with this consent and for *compulsory* conciliation of debts in accordance with the terms of the Debt Relief Act.

Disclosure of debts within prescribed time.

82. Government may consider the advisability of making a provision in the Act to the effect that whenever an application is made by a debtor or a creditor, all the creditors of the debtor

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should, on receipt of a notice, disclose the debts due to them within a prescribed time and that all the claims not so presented should be deemed to have been extinguished. For expediting the proceedings before Conciliation Boards and to ensure quick scaling down of debts, a time-limit such as this is necessary.

There are two separate transactions involved in the process of settlement of debts. One is the scaling down of old debts and the other is the liquidation of the scaled down debts. We have suggested above that the scaling down should be made compulsory under the Debt Conciliation Act in accordance with the principles embodied in the Agriculturists' Relief Act.

Provision for repayment of reduced debts.

83. It is possible that the debtor may sell away part of his property to discharge his reduced debt or take a loan from a land mortgage bank, if he can satisfy the conditions imposed by it, or obtain credit from other sources; but if any of these is not found possible, the effect of conciliation should not be neutralized by the absence of provision to repay debts in instalments. We suggest that suitable provision may be made in the Act to place scaled down debts on a new footing with instalments for repayments.

We do not think it desirable that Debt Conciliation proceedings should be confined to cases where creditors can be satisfied from loans from land mortgage banks. The process of scaling down old debts is itself an economically beneficial process and if debtors cannot get accommodation from mortgage banks, they should be enabled to make other provision for repayment.

Need for rural insolvency law.

84. We have already observed that from the enquiries made on the subject there is a fairly good number of rural debtors who are either actual or potential bankrupts and whose liabilities far exceed their assets; and even if their debts are scaled down in accordance with the provisions of the Madras Agriculturists' Relief Act, it is impossible for them to raise credit from any banking institution or otherwise to pay the reduced debts. Debt Conciliation Boards and mortgage banks can give them no help. Nor is it desirable that the debt should be hanging round their necks throughout their lifetime and should be passed on from father to son. It is a serious obstacle to the progress of agricultural economy. Such men should be enabled to start with a clean slate after a final settlement of their assets and liabilities. This class of rural debtors requires separate treatment. In cases, therefore, where even scaling down does not leave the debtor with adequate assets to discharge his liabilities, the proper remedy is the application of an insolvency law. The existing insolvency law is too expensive and dilatory to suit rural conditions. The Civil Justice Committee considered that the existing insolvency law did

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not suit agriculturist debtors and the Royal Commission on Agriculture put the case very clearly when they said :—

> "Just as creditors have a right to insist that all debtor's assets should be impounded and applied towards the payment of the debts, so also a debtor who has given up all his assets should have the clear right to be allowed to earn his living if he can, and to be free to make a new start in life."

We, therefore, suggest that a simple rural Insolvency Act be enacted and insolvency tribunals established for villages to administer the law on the spot promptly. Every honest agriculturist debtor who is unable to meet his creditors' claims should be given speedy discharge, when he unreservedly places his assets at the disposal of the insolvency tribunal or commissioner. We desire to emphasize that the procedure should at once be simple and cheap and within the reach of the ordinary indebted ryot who may choose to take advantage of the law. We are aware that in some of the Debt Relief Acts in other provinces, provision has been made that, when Debt Conciliation Boards are satisfied that the debts of a debtor are such that they cannot be reduced to an amount which he will be able to repay within a specified period (say 20 years), they may declare him an insolvent and reduce his debts to such amount as they consider that he can pay within a period not exceeding 20 years, or if, for any reason, they do not consider such reduction of his debts to be desirable direct that his property be sold and the proceeds utilized towards payment of his debts. If a separate enactment is not considered necessary, we suggest that suitable provisions relating to rural insolvency be incorporated in the Debt Conciliation Act.

Exemption from attachment and sale of homestead and minimum agricultural holding.

85. No one interested in the welfare of the indebted ryot population of the Province would like to see that in the process of debt clearance the small holder is reduced to the position of a tenant or labourer. The small holders impart a certain degree of stability to the countryside and constitute the backbone of agricultural population. While there is need for immediate measures of debt relief and while we are anxious to see that the interests of creditors should also receive due consideration in all schemes of debt redemption, we are equally anxious that the interests of the large mass of indebted ryots should be safeguarded in the larger social interests. It is not just or proper for the creditor to take advantage of the unreasonableness or foolishness on the part of an agriculturist debtor or of some turn of circumstances in connexion with any of the frequent difficulties experienced by agriculture and to deprive the small holder's family of the means by which its free existence is secured and to transform its members into agricultural labourers.

We, therefore, consider that in the enforcement of a creditor's claims against an agriculturist debtor some protection must be

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given to the debtor not only to ensure to him a fair treatment in the determination and recovery of debts and exonerating him from his own improvident acts and hard bargains but also to prohibit his eviction without full compensation for the improvements made by him if he is a tenant and to exempt his homestead and a minimum agricultural holding which is indispensable necessary for the family of the insolvent, from liability to attachment and sale if he is a peasant proprietor. In other words to the list of properties which cannot be attached and sold under the provisions of the Civil and Revenue Codes, the homestead and a minimum agricultural holding should be added. It is difficult for us to lay down definitely what the minimum holding should be. It depends upon several agricultural and economic factors and will vary from tract to tract. We prefer to leave it to be determined by competent State authorities in accordance with rules to be made in this behalf.

The provision we suggest is neither novel nor revolutionary. Some of the Debt Relief Acts in other provinces make provision for this. For instance, the Bengal Agricultural Debtors Act provides that, when a Debt Settlement Board adjudicates a debtor insolvent, it may direct that his property may be sold and the proceeds utilized towards payment of his debts, setting aside for his maintenance one-third of the land held by him in his direct possession exclusive of the land occupied by his dwelling house or one acre if his land is less than three acres.

Restriction on land alienation not favoured.

86. We have considered the advisability of an enactment prohibiting or restricting the transfer of agricultural land in order to check the tendency for the land passing from agriculturists to non-agriculturists. The Punjab Land Alienation Act, the Bundelkhand (United Provinces) Land Alienation Act and the Central Provinces Land Alienation Act have been quoted in support of it. The Central Provinces Act applies only to members of aboriginal tribes and the Bundelkhand Act too has a very limited application. The Punjab Act has a general application and according to its provisions the chief hereditary cultivating classes have been notified as falling within the restriction imposed. Members of the notified tribes are grouped by districts, and within such groups alienations are left subject to the ordinary customary law of the tribe; sales and mortgages by members of a group to any one who is not such a member are restricted by the Act. Any sale in contravention of the Act is void, and automatically takes effect as a usufructuary mortgage in the form permitted. The working of this Act, the need for which may perhaps be justified with reference to the conditions which prevailed or still prevail in the Punjab, is not on the whole encouraging. One of the results of the Act is stated to be the growing influence of the agriculturist money-lender, and this is viewed with apprehension because while the *Sahukar* is deprived by the Act of the security of the

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land and therefore lends only up to the limit of what can be repaid from the produce, the agriculturist money-lender to whom the Act does not apply can afford to lend up to the value of the land, and his object being the land, he can, if he chooses, press his client till he is compelled to sell. Though for a time the rapid increase in debt was kept in partial check by the Act, it fostered the growth of the agriculturist money-lender, and borrowing became as easy as ever. The opinion is held that there is nothing to choose between the agriculturist money-lender and his professional rival; "the one is as harsh as the other is astute, and both are demoralized by the system under which they work." On the whole, so far as the agriculturist money-lender is concerned, the peasant-proprietor who is a member of an agricultural tribe gets less protection than in dealing with the non-agriculturist money-lender. The influence of the former has recently been attempted to be checked by an amendment of the Land Alienation Act providing that, except with the sanction of the Deputy Commissioner, no permanent alienation of land can be made by a member of an agricultural tribe to a member of the same tribe or of a tribe in the same group who, being a creditor, has advanced to such person any loan, until such loan has been repaid or settled in full by the debtor and a period of three years has elapsed since repayment or settlement.

In Madras, the "Agency Tracts Interest and Land Transfer Act" applies only to the agency tracts of Vizagapatam and Godavari districts. Its main provision is that a transfer of immovable property unless it be to another member of the hill-tribe is void if it has not the assent of the Agent to the Governor; if a transfer is made in contravention of this provision; the Agent may, on the application of any one interested, order ejectment of any person in possession claiming under the transfer.

These measures are a form of protective legislation designed to prevent the expropriation of cultivating classes by those who do not themselves cultivate land. We have no reliable data to show to what extent the process of expropriation has taken place in this Province. Some land may be passing into the hands of the money-lender but we are inclined to believe that such a phenomenon is not very common or alarming; nor is it true that it usually remains with him for long. Again, the chief money-lender in the rural economy of this Province as it exists at present is the agriculturist himself and though the land is constantly changing hands, most of it is from one ryot to another. Further, the bulk of the agriculturists in the Province are small holders and are more or less continuously in need of credit. Any restriction of the kind contemplated would reduce the saleability of land and, in consequence, its value and would increase the cost of credit which is so much needed by the agriculturist. From a banking point of view, therefore, it is not desirable that impediments should be placed in the way of free transfer of land. Moreover, in the social and agricultural conditions obtaining in the Province, it is difficult to determine who

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the cultivating and non-cultivating classes exactly are; such a demarcation is well-nigh impossible. There is no sharp distinction between the rural and urban classes as there is in northern India. The townsman is more often than not an emigrant from the village and his heart still hankers after the village which to him is home. In the peculiar circumstances of the agricultural economy in the Province, which we have described, we are not in favour of any legislation restricting alienation of agricultural land (apart from the land assigned to scheduled classes). Our recommendation for the exemption from attachment and sale of the agriculturist debtor's homestead and minimum agricultural holding will, in our opinion, meet the requirements of the case.

The scheduled classes stand on a different footing. Mere assignment of land without the necessary capital for its reclamation and cultivation does not confer much benefit upon the scheduled classes and in order, therefore, to raise funds for cultivation purposes, they have been permitted to mortgage their land to co-operative societies composed solely of members of scheduled classes. In the event of a member of the scheduled classes defaulting in the repayment of a loan advanced by the society, the society is empowered to sell the land in the open market. In this way, alienation is restricted, but full value is obtained for credit purposes. So far as the scheduled classes are concerned, we feel that this system may continue.*

Limitation of the period of usufructuary mortgages.

87. As an alternative to a statutory restriction on the transfer of land, we recommend that legislation may be undertaken for providing—

(1) that the existing mortgages of agricultural land in which the mortgagee has enjoyed the fruits of the land for not less than 25 years shall be deemed to be extinguished; and

(2) that, in future, no usufructuary mortgage of agricultural land should be permitted unless provision is made for automatic redemption within a fixed period of years of which 20 should be the maximum, after which the land must be re-delivered to the mortgagor free from all encumbrances.

The basic idea of such provision is that the profits of the land during the period of mortgage are equivalent to the interest and sinking fund on the debt, and in the absence of such provision, the proceeds from the land are usually taken as equivalent only to interest or fraction of interest on the debt, and in such circumstances the mortgage may continue indefinitely. It is true that

* A minority of us consider that the passing of land from cultivating to non-cultivating landholders has lately become rather common and that this may lead to serious economic and social consequences. The fact that land is passing largely to other landholders is no consolation, seeing that most of these landholders do not cultivate their land themselves. It is clear from the Census Reports and recent village surveys that a landless proletariat is growing.

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such legislative action may carry with it the risk of evasion by creditors taking sale deeds instead of mortgages, but we are inclined to think that with progress of time and spread of literacy these practices will be rare. Such a measure will on the whole be beneficial to the ryot, and we commend to the Government the need for legislation in this direction.

Control of money-lenders and regulation of money-lending.

88. We now proceed to deal with another remedy adopted in relation to rural indebtedness, namely, control of money-lending.

Economic enquiries have again and again demonstrated that the money-lender occupies a very important and influential place in the provision of rural credit, that he is a major provider of capital to agriculturists and that whatever be the malpractices indulged in by many of his tribe in their dealings with the ryots, he has continued and will continue to be a necessary evil in the rural economy of the Province—and of India as a whole—until and unless he can be replaced by an efficient and widespread co-operative credit system. If he cannot be eliminated, at least his power for evil should be curtailed. In any scheme of relief of agricultural indebtedness suitable legislative arrangements should be devised to check the pernicious influence of money-lenders and to control the business of money-lending.

We may in passing refer to the chief features of rural money-lending. Most of the rural money-lenders in this Province have other occupations in addition to lending money. The ryots themselves form the biggest community of the lenders but of the professional lenders, the bulk are also petty merchants, most of whom give advances to the ryots so that the crops grown may pass through their hands. There is a great deal of borrowing in small amounts of grain; the loan is repaid in kind at the harvest with one-fourth extra as cash loans.

The Marwaris have extended their operations as money-lenders over a large area of this Province. The Kallidaikurichi Brahmans are a comparatively small community with their head-quarters at Kallidaikurichi in the Tinnevelly district and their banking or money-lending activities extend principally over the Tinnevelly, Madura and Ramnad districts and to a less extent over other districts in the south. The Nattukottai Chettiars and the Multanis are indigenous bankers; the former do business in general money-lending, financing small local money-lenders who lend to ryots, small tradesmen in the towns and wholesale merchants; the activities of the latter spread over a great deal of the Province and a good portion of their business is done through "hundis" for the finance of internal trade, the transmission of money and indirectly agriculture.*

* Chapter XIII of the Madras Provincial Banking Enquiry Committee Report (1930).

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Before the recent debt legislation a good first mortgage could ordinarily be got anywhere at 12 per cent but for unsecured loans and for large doubtful mortgages 15 per cent to 18 per cent were the common rates, while 24 per cent particularly in the Ceded districts, where crops are precarious and credit proportionately low, was not an uncommon rate, but a great deal of business was done at 12 per cent and 15 per cent. The high interest rates may be of the nature of insurance against risk which the money-lender takes in his business or may be due to lack of alternative sources of credit or the money-lender's expenses of collection and management of loans given to innumerable small borrowers or may be a tax on the illiteracy of the people. But the rate is not the only evil or even the principal one. Repayment is forced at the harvest and crops are taken over in payment at a low price. The weighment or measurement is often in the hands of the creditor so that, though much grain changes hands, the debt is not reduced as it should be.

Though the maximum rate of interest on agricultural loans is now governed by the Debt Relief Act, the malpractices associated with the bulk of money-lenders still continue to prevail —probably in a subtler form—and other new practices have come into play. Execution of pro-notes for amounts larger than those actually advanced, collection in advance of the difference of interest between the higher rate usually charged by the money-lender and that permissible under the Act from the amount of loan, and the disbursement only of the balance of it, the taking of usufructuary mortgages on a large scale than before and the execution of sale deeds on condition of reconveyance of land on the repayment of loan according to stipulated conditions; absence of accounts and the failure to give receipts—these are the practices indulged in by the dishonest amongst the money-lenders. Usury manifests itself not only in cases of charging high or excessive rates on loans but also under other guises referred to such as the deduction, in advance, of a fixed amount from the loan, execution of a pro-note for an amount far higher than the actual loan, or delivery of produce for a disproportionately low price fixed beforehand. The result is that in an industry which usually leaves a small margin of profit and which is, therefore, in need of a reduction in the cost of production, these practices have a demoralizing effect on the agriculturist debtor; there is no inducement for him to make serious attempts to improve his holding or to grow a bigger crop as another person will get the lion's share of the produce. This state of affairs is most prejudicial to agriculture. To see the evil in its most lurid form, one has to visit the cultivators on the hills, usually timid, ignorant and illiterate exploited in the most unscrupulous fashion by the sharper-witted money-lenders from the plains below.

The Usurious Loans Act, though intended to discourage money lending at usurious rates of interest, has been applied by the civil courts with a considerable degree of disparity. It would

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appear that the High Court issued a circular directing all civil courts to apply the Usurious Loans Act with greater regularity and precision in all proper cases and that it was also made clear that relief should be afforded if the transactions between the parties were substantially unfair and that such unfairness should be presumed if the rate of interest charged was excessive unless special circumstances justifying such rate of interest were proved. Whatever might have been the utility of this Act, we seriously doubt whether it is adequate for the purpose in view. The Madras Debtors' Protection Act (Act VII of 1935)—to which we have already referred—is a piece of legislation for the protection of small debtors who have borrowed loans below Rs. 500; it requires creditors to maintain proper accounts for that purpose and to give receipts to their clients for all repayments. The Act has been amended by the Madras Act IV of 1936 which provides for a maximum rate of simple interest of 9 per cent per annum in the case of secured loans and of 15 per cent per annum in the case of unsecured loans. The Act also provides that if in any suit or proceeding relating to a loan advanced after its commencement, it is found that the interest charged exceeds these rates, the court shall, until the contrary is proved, presume for the purposes of sections 3 and 4 of the Usurious Loans Act that the interest charged is excessive and that the transaction was, as between the parties thereto, substantially unfair. The position has, however, changed so far as agricultural debts are concerned, the rates of interest on such debts being regulated by the provisions of the Agriculturists Relief Act.

We consider these provisions inadequate. We are of the opinion that legislation should provide for—

(*a*) compulsory licensing of money-lenders;

(*b*) proper maintenance of accounts by money-lenders and periodical inspection and audit of their accounts;

(*c*) fixation of a maximum rate of interest;

(*d*) imposition of an obligation on money-lenders to furnish periodical statements of accounts to debtors;

(*e*) prohibition of compound interest; and

(*f*) the signing of the contract by borrowers, the contract being in the language of the district to which borrowers belong.

It is needless for us to dilate on these points. There is a feeling in certain quarters that money-lenders would be reluctant to submit themselves to legislative restrictions involved in their compulsory registration and that agriculturists depending as they do in the main upon money-lenders for credit cannot afford to lose their goodwill. We are unable to share this feeling. Legislation on the lines proposed will tend to reduce the expenses of the honest money-lender for the recovery of his debts and the burden of interest charges now borne by the honest borrower.

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If the money-lender feels that he cannot under such legislation practise his profession, co-operation offers him both a field for the investment of his money and an opportunity for service. In the past he has fulfilled a useful function in the rural credit system and if he accommodates himself to altered circumstances, he will continue to do so in the future. The loan business of co-operative societies is restricted to particular channels and protected by peculiar safeguards. The money-lender may invest his funds in village societies or central banks, and these will afford him a scope for investment much less speculative than the traditional money-lending business of the village. His experience will be of help to the working of societies if only he chooses to take a place in their management.

The compulsory registration or licensing of money-lenders is essential for placing money-lending on a proper basis and to ensure healthy business methods among money-lenders. It may possibly drive out the dishonest or unscrupulous money-lenders; if this happens, it is so much the better for the profession of money-lending as a whole. The honest or the better type of money-lenders will welcome the measure. This will also remove the traditional or popular reprobation in which money-lenders have been held. Further, legislation of the kind proposed may possibly make a contribution to the re-organization or rationalization of indigenous money-lending in so far as it may help to link some of the bigger money-lenders with the Reserve Bank of India. The failure on the part of money-lenders to register themselves and to take out licences should be made penal.

The absence of a proper maintenance of accounts by creditors is a serious evil. Money-lenders should be compelled to keep proper accounts in respect of loans advanced by them and other transactions in relation to such loans. It is equally necessary that provision should be made for periodical (half-yearly or yearly) supply to debtors of a statement of accounts signed by money-lenders or their agents showing the outstanding amount of principal and interest and the payments received during the period from debtors towards their debts. The periodical receipt of statements of debt and interest due would make the agriculturist scrutinize the account, realize the benefit of prompt payment and regulate his budget; it would give him some sort of economic education. We hasten to add that the furnishing of a statement should not be deemed to be an admission by the debtor of the correctness of his accounts. The value of the issue of receipts for payment made by debtors is too obvious to require justification. Periodical inspection and audit of money-lenders' accounts should be prescribed. The intervals between which audit should be done, the agency for audit, etc., are all matters of detail into which we do not propose to go. The contravention by money-lenders of the provisions in regard to the maintenance and regulation of accounts should be made punishable.

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As regards the maximum rate of interest, the Madras Agriculturists' Relief Act fixes the maximum rate of interest on loans to agriculturists at 6¼ per cent subject to a power in the Local Government to vary it; it does not regulate interest rates on other debts. We feel that the rates prescribed under the Madras Debtors' Protection Act for other debts are high and require to be suitably lowered.

Prohibition of compound interest.

89. Compound interest has always been the worst feature of money-lending. Whatever its justification in the past, we strongly feel that in the changed social and economic conditions, there is hardly any justification for money-lenders charging compound interest under any circumstances. We recommend that it should be prohibited. The English Money-lenders Act does in fact prohibit compound interest.

Statutory prohibition of unproductive borrowing not favoured.

90. We are aware of the suggestions made that the agriculturist should be prevented from borrowing for unnecessary purposes and that this should be done by restricting the sources or means of credit. Left to himself, it is argued, the agriculturist will soon get heavily into debt again and if his credit is improved as a result of the removal of his old debts, the downward process is likely to be rapid unless it is countered by suitable checks and his future borrowings are restricted to what is required for productive purposes. To that end the Reserve Bank of India has suggested that the total future liability (after the liquidation of previous debts) of agriculturists might be limited either by fixing it in terms of a suitable multiple of land revenue or on the basis of the average value of land held in proprietary or occupancy right so as to enable the debt to be liquidated after providing for the bare necessities of the life of the owner (or tenant) and his family within a period, say, 30 years. A second safeguard against excessive credit and evasion of restrictive measures suggested is to prohibit borrowing from more than one source.

We have considered these suggestions and feel sceptical of the feasibility of enforcement of the measures suggested. While we entirely agree with the view that unproductive borrowing should be prevented and credit should be restricted in the interests of agriculturists themselves, we are not sure that a statutory prohibition or restriction of the kind suggested will be either practicable or desirable. A mathematical fixation of future liability of the agriculturist is too difficult to ensure; nor will it foster his economic freedom or independence. On the other hand, it is more than likely that the sense of absolute security engendered by the proposed restraint might destroy prudence and regularity in the activities of most agriculturists as well as the spirit of saving and economy. We are, therefore, opposed to statutory restriction of credit by way of the fixation of the total

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future liability of agriculturists. This economic tutelage is not on the whole desirable. We would rather rely on the corrective influence of education, the spread of which, however slow, may offer a lasting remedy.

We are also not certain whether sterilization of credit implied in the second suggestion is possible or desirable. In this connection our attention has been drawn to provisions of the Bombay Agricultural Debtors' Relief Act, 1939, according to which a debt adjustment board can in making an award call on the debtor, if he is not a member of a resource society to become one within a time prescribed. If he defaults, the board is required to dismiss the debtor's application for adjustment of his debts. The proposal would in effect mean the control of all the activities of the debtor in relation to his credit needs and is probably designed to ensure the sterilization of all private credit which competes with institutional credit. For the reasons already explained, we are not inclined to support this proposal either.

Effect of legislation proposed.

91. We are conscious that many of the measures already taken by the Government or recommended by us involve departures from the principles of freedom of contract and of the sanctity of formal undertakings. But we must place the prosperity of agriculture—which means the general prosperity of the country—above all other considerations. 'Agriculture as a producer of wealth, as an employer of labour, as a fine mode of life, as a provider of homes for many, as an industry which develops some of the finest qualities in those engaged in it, deserves substantial and reasoned support' from the Government, the legislature and the public. It is possible that the general effect of the measures proposed may be the curtailment in some measure of the supply of credit by private agencies. But then it is known that a portion of the present borrowings by agriculturists is unproductive and avoidable, and the curtailment of such unproductive borrowing should prove really healthful. The money-lender will continue to ply his trade—though it may be restricted—and to supply the requirements of many of his old clients. With the extension of village credit co-operatives under the planning which we have suggested elsewhere it is hoped that reasonable demands for productive credit in the areas covered by them will be adequately met.

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CHAPTER IV.—LAND MORTGAGE BANKS.

Sound development of mortgage banking.

92. We have already referred in some detail to the origin and growth of the mortgage banking system in the Province in response to the long-felt need for a separate credit machinery which could raise capital for long periods by mobilising the resources of average investors through debentures providing to the large body of agriculturists long-term capital repayable in instalments at a comparatively cheap rate of interest for discharge of prior debts or permanent development of land on the first mortgages of their landed assets. We do not propose to traverse the ground again. The beginning of the movement dates back to 1925 and the first five years of the movement were, so to say, a period of experiment. This empirical state of individualism of land mortgage banks disappeared with the formation of the Madras Central Land Mortgage Bank towards the end of 1929, the structure of the mortgage banking system then became complete with the machinery for centralized debenture issue and local apparatus for valuation, supervision and inspection of the landed properties of individual borrowers and for distribution of loans to them.

The fostering care and nursing by the Government through many forms of direct and indirect financial help and its guarantee of debentures of the Central Land Mortgage Bank have contributed not a little to the development of co-operative mortgage banking—a good example of a wise combination of State and voluntary effort. Mortgage banking forms an integral part of the co-operative credit system. We are happy to record that the foundations have been well and truly laid and that the superstructure has been carefully planned and built. The Madras system has evoked interest and admiration on the part of students of rural credit, public men and the administrators who are concerned with similar problems in other provinces and neighbouring countries.

Five-year plan of expansion of land mortgage banks.

93. In any scheme of agricultural debt relief two distinct items have to be provided for: one is the reduction of the debt to the level of the debtors' ability to repay and the other is the liquidation of the scaled down debts. Land mortgage banks can be of great help to the ryots to enable them to raise the required money for payment of reduced debts. In countries where mortgage banks have been working, they have provided the indebted ryots with the means of paying off the prior debts which carried heavy rates of interest. From the date of the starting of the Madras

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Central Land Mortgage Bank up to 30th June 1939, it issued loans to an aggregate amount of Rs. 235 lakhs. This has just touched the fringe of the problem of rural indebtedness.

The following statement shows the number of primary banks in each district of the Province, the number of taluks and villages covered by them in December 1938 :—

Expansion of Primary Land Mortgage Banks.

Serial number and names of districts.	Number of taluks in the district.	Number of revenue villages in the district (census of 1931).	Number of land mortgage banks in the district.	Number of taluks covered by them.	Total number of villages included in all the land mortgage banks in the district.
(1)	(2)	(3)	(4)	(5)	(6)
1 Anantapur	9	853	2	6	299
2 Arcot, North	11	1,998	7	7	1,669
3 Arcot, South	8	2,315	6	7	1,484
4 Bellary	9	908	1	1	25
5 Chingleput	7	2,138	5	6	1,103
6 Chittoor	10	2,254	3	4	468
7 Coimbatore	10	1,103	10	9	995
8 Cuddapah	8	889	2	2	120
9 Godavari, East	8	849	8	7	598
10 Godavari, West	7	764	6	7	442
11 Guntur	9	982	6	6	491
12 Kanara, South	6	799	3	6	799
13 Kistna	9	1,028	7	8	542
14 Kurnool	9	796	2	3	90
15 Madura	8	1,066	4	3	183
16 Malabar	10	780	3	9	779
17 Nilgiris	3	53	1	3	53
18 Nellore	13	1,746	4	8	278
19 Ramnad	9	3,565	1	1	57
20 Salem	10	1,782	5	6	759
21 Tanjore	11	2,511	9	11	2,418
22 Tinnevelly	8	579	3	6	467
23 Trichinopoly	7	1,100	3	6	380
24 Vizagapatam	21	4,845	6	9	905

Subsequently five banks have been started up to 30th June 1939. Though no district has been left out, there are still, in each district, some areas which are not covered by mortgage banks. New banks may be started in some of the areas yet uncovered. Some portions of the districts concerned may be included in the jurisdiction of existing banks. Again, there is a fairly good portion of the dry area which has not yet had the benefit of mortgage banks, because the question as to whether banks can be organized in such areas has not been finally settled. Lastly, there are zamindari areas in some districts, which have not yet been surveyed and settled and which, in the condition in which land

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mortgage banks have been working, cannot have their benefit until they have been surveyed and settled. In view, therefore, of the ground yet to be covered and the need for help for a large number of eligible debtors (apart from potential insolvents), particularly on account of the circumstances created by the Agriculturists' Debt Relief Act and the expanded activities of Debt Conciliation Boards we are of the opinion that there should be a sort of planning so as to cover the whole Province with at least 200 mortgage banks in the next five years on the basis of at least one bank for every revenue taluk in the deltaic areas and at least one bank for two or three taluks in the dry areas.

Formation of land mortgage banks in dry areas.

94. The question of the formation of land mortgage banks in purely dry areas bristles with difficulties. We understand that the present policy is that banks are started in dry districts only where definite sources of irrigation either from tanks or from wells exist and there is a certainty of a crop being obtained. In other precarious areas no banks have been started. The Central Land Mortgage Bank and the Registrar have rightly refrained from organizing banks in dry tracts which are almost entirely rainfed. The success of mortgage banking ultimately depends upon prompt repayment of equated instalments by borrowers, and it is up to the Central Land Mortgage Bank and the trustee to see that the debentures are redeemed in due time from the collections towards instalments pooled into the sinking fund. The confidence of investors in the soundness of debentures should not, on any account be disturbed, and this can be ensured only by the strictness with which repayment is insisted upon and collected from the ultimate borrowers. The regularity of income and therefore of repayment is not to be expected in tracts which are subject to uncertainties of seasonal rainfall. Agriculture in such tracts is a gamble in rain, and a mortgage banking system cannot be built on such uncertain foundations.

Investigations have shown that the general indebtedness of agriculturists in dry tracts is much less than in delta districts. Land as a banking asset does not command the same value and the ryots constitute bad risks from the banker's point of view. The Madras Provincial Banking Enquiry Committee has put it on record that while the average debt per acre in the Province was Rs. 53, it was Rs. 65 on the West Coast, Rs. 62 in the Northern Circars as well as in the Tamil districts and only Rs. 23 in the Ceded districts. While we are convinced that an improvement in the economic conditions of the ryots of these tracts must mainly depend upon a substantial provision of facilities for irrigation and industrial development, it is for consideration how far the machinery of co-operative land mortgage banks can be utilized for the grant of long-term money required for redemption of indebtedness of the ryots

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and for land improvements in such areas. Any financial arrangements suitable for the purpose in such tracts should take into account a cycle of years, each cycle consisting of a normal period of good, bad and indifferent years, which may be determined in each tract in consultation with the Agriculture and Revenue Departments. A good year is followed usually by two, three or four indifferent or bad years. While annual recovery in such areas is not certain, as much as is reasonably possible should be recovered in a good year without hardship or undue inconvenience to the ryots. In other words, the instalments may have to be regulated with reference to the varying conditions of harvest and not with reference to arithmetical considerations. We are aware that such an arrangement would make the mortgage banking system as obtaining in the Province complicated. The requirements of the situation may be met if provision can be made for suspension or postponement of payments in scarcity or famine years and extension of the period of payment. We are not, however, sure that in the present conditions of the money market in the Province, the Central Land Mortgage Bank can raise capital for 30 or 40 years so as to make provision for a liberal extension of the period of repayment. We have given anxious consideration to the several aspects of this problem and feel convinced that a solution of it must be conceived in a spirit of courage and sympathy. We, therefore, recommend that special arrangements should be made, in respect of land mortgage banks helping the ryots with long-term mortgage credit in the areas depending exclusively on rain. Such arrangements will consist in the Government offering to the Central Land Mortgage Bank temporary accommodation either from the general revenues of the Province or from the Famine Relief Fund until the Government are able to reimburse themselves from its periodical collections. This will enable the bank to meet interest liabilities to debenture-holders to the extent of its investments in such areas during periods of distress arising from drought.

The diversion of the Famine Relief Fund in the manner suggested may appear a desperate expedient but in the circumstances explained, we feel that the problem should be tackled with determination. We have explored all possibilities and see no ordinary way of solving it. We find that the purposes for which the fund may be utilized are (i) relief of serious famine and (ii) relief of distress caused by serious drought or other natural calamities.

When the fund exceeds Rs. 40 lakhs, the excess may be utilized to meet expenditure on protective irrigation works and other works for the prevention of famine. We understand that before the passing of the Madras Famine Relief Fund Act (Act XVI of 1936), any excess over Rs. 40 lakhs could be utilized for the grant of loans for the relief of distress and for writing off irrecoverable balances of such loans. Even under this Act, the fund can be utilized for the relief of distress caused by serious drought or other natural calamities. We, therefore, see no difficulty in the Government making use of the fund for the purpose indicated in our

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recommendation. We suggest that if there be any legal impediment to such diversion, the Government may take steps to amend the Act.

The problem of dry tracts is not merely one of redemption of indebtedness the incidence of which, as we have stated, is not relatively high; a mere provision of long-term or short-term finance does not touch the core of the malady from which the people of these tracts suffer. The agricultural and economic conditions of these people require a comprehensive treatment on a far larger scale than has been so far attempted if a permanent cure has to be afforded them; and, in this programme of relief, the provision of adequate irrigation facilities, conservation of moisture in land by dry-farming, sinking of wells, promotion of minor irrigation works, should receive early consideration. The exploitation of the natural resources of the dry tracts and organization of small scale and large scale industries and of subsidiary occupations are yet other lines of economic betterment of the unfortunate people of these tracts. We trust that the Government will lose no time in devising suitable measures of relief somewhat on the lines suggested above and in insuring the people against crop failures or famines which are so common a feature of such areas. It is urgent that means should be found to ensure to the ryots there regular agricultural income and to make co-operative banking in these areas a financially sound proposition.

Zamindari areas—Difficulties in organization of mortgage banks.

95. There are difficulties in the matter of organization of land mortgage banks in the zamindari areas of the Province. Firstly, the system of record of rights and the machinery to carry out changes in the ownership of agricultural holdings from time to time so as to make the village accounts and the pattas correspond to actual ownership is defective and no reliance can be placed upon it. Secondly, the provisions of the Madras Estates Land Act are not satisfactory and do not ensure compulsory mutation of names in the accounts with every change of hands in the holding. Thirdly, though the position is sought to be improved by the projected tenancy legislation in the zamindaris, it cannot meet the full requirements of the case. Any presumption of ownership based on a zamindar's village records may be worthless. Fourthly, many zamindari areas are yet unsurveyed and several systems of noting areas other than in English acres are still in force. The process of commutation of old measurements into acres is beset with many difficulties.

Need for legislation regarding mortgages of land on the lines of the Torrens system.

96. It would take some years before a satisfactory survey, record of rights and settlement of rents in the zamindaris are carried out and it is, therefore, necessary to devise some scheme in

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the near future whereby land mortgage banks, if they are to be started in the zamindari areas, can be effectively protected against third parties, in whom title may rest, setting up claims as against persons who mortgage their properties to banks and to whom loans may be advanced. Many devices have been adopted in several countries to afford such protection to land mortgage banks. In Germany, for instance, a land register was instituted, in which property relationship and the debt burden of every piece of land are registered. Any entry in the register is accepted as a valid statement as to the fact of ownership or claims against any parcel of real estate.

In France, the legislation governing the land mortgages is based on the principle of what is known as the "Torrens system." The essence of it is that a land mortgage institution, after assuring itself that the title is clear of all registered claims, starts a procedure which brings to light any hidden claims. This is called the "purge." It consists of a short notice officially published calling on third parties to show their rights. The process is to take only three weeks and to cost about four shillings. If claims are presented as a result of this notice, the institution may, at its discretion, oppose them and call on the owner to pay the cost of the suit or reject the application. If claims are not presented, no third party can ever afterwards contest the mortgage institution's lien, while the loan applied for must be granted.

In the case of ryotwari tracts in this Province, the matter is somewhat easier to deal with. A presumption to the effect that the ryotwari pattadar who is a registered holder in the village accounts is the owner of the holding already exists in respect of the claims of the State for recovery of public dues, and there are facilities for immediate transfer being effected as soon as holdings change hands. If purchasers and other derivative owners neglect to avail themselves of the facilities, the fault is theirs. So, if provision is made for notification by land mortgage banks of the proposed mortgage to be published in the office of the revenue authority who effects the transfer, the village *chavadi* and the Sub-Registrar's office to the effect that the registry in the village accounts will be taken as conclusive evidence of title of the pattadar unless it is questioned by one who claims title otherwise within a prescribed time, it would suffice. The summary settlement of the dispute will be entrusted to a revenue authority whose decision will be final at least so far as the priority to the land mortgage bank loan is concerned, even if the question of general title is still left open. In the absence of receipt of such notice within the prescribed time, the bank should be absolutely protected against any future claim by any third party. We recommend that legislation on these lines may be undertaken and, if necessary, incorporated in the Madras Co-operative Land Mortgage Banks Act (Act X of 1934).

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Continuance of primary land mortgage banks as independent organizations recommended.

97. In the case of involuntary alienations such as court-sales, it should not be difficult to devise a procedure whereby the selling authority may be required to notify the sale to the land mortgage bank concerned.

We cannot agree to any suggestion that the Central Land Mortgage Bank should operate through its branches in place of the existing primary banks or that primary banks should be converted into its branches. Firstly, the financing of mortgage loans requires detailed local knowledge of agricultural and economic conditions which a central institution cannot have. It will, therefore, have to rely on its branches and agencies. These may not prove to be as satisfactory as primary banks. The services of local men are necessary not only for the purpose of ascertainment of land values, status of borrowers, but also for the recovery of loans and for periodical revaluations, and these can be secured only through independent primary banks. In fact, the area of operations of a primary mortgage bank is divided into convenient groups and a director for each group of villages is elected to the Board, and thus an intimate knowledge of the area comprised in the jurisdiction of the bank is ensured. The Central Land Mortgage Bank cannot ordinarily secure such detailed knowledge of local conditions through its branches. Secondly, it is doubtful if there will be any real saving to the Central Land Mortgage Bank. The bank has to meet the cost of establishment of its branches. If the services of local men are lost through the constitution of branches, the gap should be made up by the employment of a large paid staff. It is, then a debatable point whether the conversion of primary banks into branches of the Central Land Mortgage Bank will result in any economy of overhead expenses. Thirdly, the experience of land credit institutions in America and Europe shows that those countries have relied on a more decentralized organization for the grant of mortgage loans, i.e., the central institution issues bonds and transfers the funds obtained through their sale to primary banks affiliated to it, which finance mortgage loans required by their members. The present constitution of mortgage banks, is, in our opinion, sound and we do not find any compelling reasons for its revision. We consider that primary land mortgage banks should continue to function as independent organizations with affiliation to the Central Land Mortgage Banks as at present.

Elimination of individual members from the Central Land Mortgage Bank not favoured.

98. One of our members (Sri V. Ramadas Pantulu) has urged the elimination of non-borrowing individual members from the Central Land Mortgage Bank and the reservation of power to the bank to co-opt, at its discretion, not more than three individual

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co-operators with knowledge of banking to its board of management or to its executive committee. We have considered the suggestion but are not convinced of the need for a change in this respect.

Issue of long-term loans direct by land mortgage banks.

99. Land mortgage banks came into being in response to a genuine need for a separate agency for the supply of long-term capital to agriculturists for the discharge of prior debts, land improvements, etc. Past experience has clearly demonstrated the unsuitability of ordinary agricultural credit co-operative societies as suppliers of mortgage credit for clearance of prior debts; indeed, much of the confusion in co-operative finance in the past was due to the fact that agricultural credit societies financed their members for discharge of prior debts. It is time these societies should abandon the practice of giving loans for debt clearance. The ordinary rural credit co-operatives are, by reason of their conception, constitution and of methods of business, not competent to deal with long-period mortgage credit and all authoritative opinion has unequivocally declared itself in favour of a separate land credit institution. The technique of long-term mortgage credit is different and the scrutiny of applications for long-term credit, examination of title to land, etc., are extremely difficult processes which require separate institutions to deal with. One of our members (Sri K. Venkata Rao) has suggested that long-term credit might be passed on *through* village credit co-operatives. He seems to think that a ryot would prefer to apply to a single institution for all forms of credit he requires and that a single organization is better able to judge of the general position of a ryot-borrower. His point, as we understand it, is that though the source of the two forms of credit may be different, they must reach the borrower through the village credit society so that the borrower's activities and his short-term needs may be supervised or looked after and recoveries made by the village societies. The idea looks simple and attractive but we are not sure of the feasibility of the proposal. It bristles with practical difficulties and may lend to financial confusion in actual working. In our opinion, the grant of long-term mortgage loans for discharge of prior debts should be the exclusive sphere of mortgage banks.

Grant of loans for land improvements.

100. The by-laws of primary land mortgage banks provide for the grant of loans to members for redemption of mortgages, discharge of other prior debts, improvement of land and methods of cultivation, and for the purchase of land in special cases so as to enable the ryots to round off their holdings and work them more economically. In actual working, however, we observe that practically all the loans advanced by the banks are for the purpose of discharging old debts of borrowers. Hardly any loans are taken

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or given for land improvements. While the loan for the discharge of prior debts is in a sense unproductive, the loan for land improvements is productive in so far as it brings in an increased return to the borrower on account of the improvements effected. Enquiries in the past have, however, disclosed a lack of demand for capital for such improvements. The Royal Commission on Agriculture put it on record " that whilst there is some demand for facilities to repay old debts or redeem mortgages, there is no strong demand for long term money for land improvements " and the Madras Banking Enquiry Committee, after discussing the position at some length, came to the conclusion that " it is, therefore, not surprising to find ryots unwilling to borrow large sums to sink a well which may be a success or equally may be a failure." This is evidenced by the comparatively inconsiderable amounts borrowed from the Government under the Land Improvement Loans Act. The bulk of agriculturists consist of very small landholders, and they cannot afford to invest large sums in improvements. Also the scope for any private irrigation works other than wells in the ryotwari tracts of the Province is limited. In the tracts of precarious rainfall where the need for wells is greatest, the cost is often prohibitive and the risk of not finding sufficient water is a real one. Though fragmentation and subdivision of agricultural holdings are noticeable, the problem in Madras has not been acute and there has consequently been no widespread desire for the consolidation of holdings and for capital to finance the process of consolidation. On the other hand, the redemption of prior debts has been a pressing need of the ryot and it is not surprising that land mortgage banks should have been resorted to mostly for redemption of indebtedness. It should, however, be recognized that in any given area in which a land bank operates there will ordinarily be only a small proportion of eligible borrowers from the bank's point of view,—as has been disclosed by enquiries made in the past with the help of Madras Provincial Co-operative Bank. It is necessary that the limitation of land mortgage banks in this respect should be appreciated. It is a mistake to think that land banks can help all indebted ryots irrespective of the latter's ability to repay their debts. This fact points to the desirability of land banks encouraging loan applications for land improvements. Perhaps there has been a natural reluctance on the part of land banks to make loans for such purposes in the absence of a suitable agency to advise them on the agricultural, economic and financial aspects of the schemes for the promotion of which loans are required.

We feel that though primary mortgage banks have, for obvious reasons, applied themselves so far to the task of granting long-term loans for redemption of indebtedness, the time has come when they should encourage loans for productive investment on land improvements. The development of agricultural industry through permanent improvements individually or jointly by a combination of ryots offers a most profitable field for land mortgage banks.

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For instance, the importance of hydro-electric power in its application to agriculture is one which may profitably engage the attention of land mortgage banks. They may explore the possibilities of facilitating its widespread utilization with a view to make agriculure "industrially nationalized."

We are aware that the Central Land Mortgage Bank has made provision in its regulations for grant of loans for this purpose. We consider it necessary that this should be brought to the notice of primary banks and that they should be asked to carry on educative propaganda among ryots and to make investigations as to the need for loans for land improvements. Primary banks through their paid staff should explain to the ryots the facilities offered by them for grant of loans for land improvements, the conditions to be satisfied by applicants and the manner in which loans can be obtained through leaflets, lectures and other measures. We would urge the Government to make the services of the departments concerned (Agriculture, Industries, Revenue, Public Works, etc.), available to the central and primary land mortgage banks for purposes of consultation and technical advice.

Loans by Government for land improvements to be discouraged in areas, where land mortgage banks operate.

We suggest also that the grant of loans by the Government under the Land Improvement Loans Act should not be encouraged in areas adequately served by land mortgage banks. The applicants for loans should be directed to approach the banks.

Lower rate of interest on loans for land improvement.

We notice that the Thirteenth Conference of Registrars of Co-operative Societies held at New Delhi in December 1939 has suggested that loans for land improvements should be advanced at a rate lower than for loans for other purposes. We commend this for the consideration of the Central Land Mortgage Bank.

Grant of loans for purchase of land.

101. In the course of our discussions a suggestion has been made that mortgage banks should undertake not only the financing of land improvements in the manner suggested above but also the financing of land purchase. In economically advanced countries, mortgage loans are largely or even preponderantly for the purchase of land. The principal use of mortgages in such countries is not to secure unproductive debt but to enable industrious men without money to pledge the proceeds of their future work and so secure money to invest at once in land and buildings, which would serve as security in case their work proves unproductive. Farmers without land and without savings sufficient to buy an economic holding are converted by this form of help, into proprietors on the strength of their capacity to secure a return on the capital invested as well as on their own labour. The loans are a spur to enterprise and enable men to improve their status and prospects. We doubt

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whether considerations such as these are generally applicable to Madras. There may be, and there probably are, special cases where a bank may be justified in giving a loan for purchase of land. Such cases can be decided on their merits. But in present circumstances we refrain from making a general recommendation.

Encouragement of small loans by land mortgage banks.

102. It has been brought to our notice that there is a certain amount of reluctance on the part of mortgage banks to issue small loans to the ryots. Though this may not be true of all primary banks, the impression seems to have gained support from the fact that the amount of loans below Rs. 500 and between Rs. 500 and Rs. 1,000 constitutes a very small proportion of the total loans advanced by the Central Land Mortgage Bank. The following statement explains the position :—

Loans disbursed by the Madras Co-operative Central Land Mortgage Bank during the period 1929–30 to 1937–38 classified according to value.

Amount.	Number of loans.	Amount.	Percentage of the number of loans to the total number of loans.	Percentage of the amount to total amount of loans.
		LAKHS.		
		RS.		
Amount below Rs. 500	766	2·63	8·60	1·6
Rs. 500 and below Rs. 1,000 ..	2,048	13·51	23·00	8·2
Rs. 1,000 „ 2,000 ..	2,807	35·45	31·50	21·5
Rs. 2,000 „ 3,000 ..	1,369	30·21	15·32	18·4
Rs. 3,000 „ 4,000 ..	754	24·06	8·44	14·7
Rs. 4,000 „ 5,000 ..	425	17·84	4·80	10·9
Rs. 5,000 „ 6,000 ..	651	32·58	7·30	19·8
Rs. 6,000 „ 7,000 ..	30	1·85	0·30	1·1
Rs. 7,000 „ 8,000 ..	20	1·44	0·20	0·9
Rs. 8,000 „ 9,000 ..	11	0·90	0·10	0·5
Rs. 9,000 „ 10,000 ..	4	0·36	0·04	0·2
Rs. 10,000	36	3·60	0·40	2·2
Total ..	8,921	164·43	100·00	100·0

It is seen that loans below Rs. 500 were 8·6 per cent of the total number of loans and 1·6 per cent of the total amount of loans issued. It may be that small loans are much too expensive to the banks; the fees leviable for investigation of applications for small loans may not fully cover the administrative expenses of primary banks though the labour and trouble involved in such investigation may be the same as that in regard to applications for big amounts. We are of the opinion that the position should not be looked at from this narrow point of view. The small landholders are as much in need of help from mortgage banks as the medium and large landholders; they, too, require cheap credit on easy terms of repayment. We, therefore, recommend that loans smaller than Rs. 500 should be encouraged. Mortgage banks should see that they do not give loans above Rs. 5,000 to

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the prejudice of the necessitous ryots applying for loans below Rs. 500. We suggest that the Registrar, as trustee, should be able to watch the working of this principle and ensure the satisfaction of the needs of smaller borrowers. Under the Agriculturists' Loans (Amendment) Act, 1935, no loan is granted by the Government if the amount of debt as scaled down is below Rs. 100. We see then no reason why land mortgage banks should not grant loans smaller than Rs. 500.

Grant of loans for periods exceeding seven years.

103. In our recommendations relating to agricultural credit societies and central banks, we have made it clear that they should confine themselves to short and medium term credit and that the latter class of loans should ordinarily be from three to five years and in exceptional cases seven years. Land mortgage banks have, at present, confined their operations only to twenty-year loans. The question has been raised as to the agency which should advance loans for long-term purposes for periods varying between seven and 20 years. We do not see any objection in principle to mortgage banks stepping in and filling up the gap. We, therefore, recommend that loans for periods above seven years may also be given for genuine long-term productive purposes by mortgage banks, the Central Land Mortgage Bank undertaking to float debentures for 10, 15 or 20 years as the case may be, according to requirements.

Extension of period of loans beyond twenty years not favoured.

104. The question has been raised whether the period of loans given by land mortgage banks may be extended from 20 to 30 years. The Townsend Committee on Co-operation suggested that the period of loans should not exceed 30 years; the Indian Central Banking Enquiry Committee, while recommending that land mortgage banks should, for the present, confine themselves to 20 years, stated that they should be able to extend the period to 30 years, if necessary. The Eleventh Conference of Registrars of Co-operative Societies in India, held in 1934, suggested an extension of the period to 40 years. On an examination of the merits of these suggestions we are inclined to allow the present period of 20 years to continue in the interests of both primary banks and borrowers. Firstly, we are afraid that the period of 30 years is not likely to attract the investing public as much as the existing period of 20 years and that there would be difficulty in raising debenture money for 30 years. Secondly, if money for 30 years is to be obtained, a high rate of interest will have to be paid, which will increase the cost of the loan. Thirdly, few loans will be repaid in the lifetime of the borrower and to lend for so long a period may result ultimately in endless difficulties with co-parceners and the like. So long as the law of inheritance remains what it is, the land is subject to subdivision on the death of the borrower and when subdivision occurs, difficulties of repayment of the loan taken may ensue. Fourthly, in view of

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the popular feeling that even usufructuary mortgages should not exceed 20 years, we feel that it is not desirable that mortgages should continue beyond that period. If a borrower cannot be expected reasonably to repay a loan taken for the discharge of his prior debts, he should be deemed to be an insolvent for all practical purposes and relief should be given by the application of the provisions of rural insolvency law the need for which we have suggested elsewhere. The remedy does not lie in lowering the amount of equated instalments by extending the period beyond 20 years, because a mortgage bank has to look to the ability of the borrower to repay and where loans have been advanced for discharge of old debts, the repaying capacity does not go on increasing with the length of the period. We are not deterred by the apprehension that the longer the period of the loan, the greater is the danger of the debtor forgetting the benefit received by him and of becoming slack in repayment, because, as the loan goes on diminishing, the security, so far as bank is concerned, increases and the debtor may be expected to become more vigilant in repayment for fear of foreclosure. Nonetheless, we feel that the balance of advantage lies in favour of the continuance of the present practice of mortgage banks confining themselves to 20-year loans for the discharge of prior debts.

Grant of extensions in deserving cases.

105. There are, however, occasions when borrowers, owing to agricultural distress or calamity beyond their control, cannot repay the equated instalments; such occasions call for suspension or postponement of instalments. In order therefore to provide for extension being given in those cases, we consider it desirable that the Central Land Mortgage Bank should float debentures for a slightly longer period than that of the loans and that in the case of 20-year loans, debentures for a period of 25 years may be floated.

Period of non-redemption of debentures.

106. The present system of making the debentures irredeemable for a definite period of not less than ten years certain with an option to the Central Land Mortgage Bank to redeem them thereafter is, in our opinion sound and ensures confidence among long-term investors by assuring them a steady yield on their investment for a long period without worrying themselves frequently with finding out new sources of investment. We recommend that the present system should be continued.

Rates of interest.

107. The rates of interest charged by the Central Land Mortgage Bank on loans to primary banks and those charged by the latter to ultimate borrowers have varied according to the condition of the money market, and the rates at which debentures

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have been floated from time to time. Recently, however, the Government considered, on the advice of the Reserve Bank of India, that a margin of 2½ per cent between the rate of interest to the ultimate borrower and that paid on debentures should be maintained. The Central Land Mortgage Bank lends to primary banks at 5 per cent and the latter to individual borrowers at 6 per cent, reserving 1 per cent for their working expenses and reserves. It is needless to state that the return from land has, in recent years diminished, and while we recognize that the interest of mortgage banks should be protected, we feel that the margin between the borrowing rate and the rate at which money is made available to the ultimate borrower of a land mortgage bank, should be 2 per cent. It may be shared equally by the Central Land Mortgage Bank and the primary bank. It is not our intention to suggest that the rates should be cut down beyond the safety limit. What the Central Land Mortgage Bank requires is (1) the amount to be paid into the sinking fund, (2) the amount of interest on debentures and (3) the amounts for payment of dividend on shares after meeting running expenses and creating a reserve fund and for provision for a bad debts reserve and fluctuations in sinking fund. All these together represent the annual instalment which the bank must get from the debtors through its constituent banks. We are inclined to believe that as the Central Land Mortgage Bank develops its business, the 1 per cent margin which we suggest it may reserve for itself, will be adequate for all its requirements.

Probation of a member of a land mortgage bank in a credit society not favoured.

108. We have been called upon to express an opinion on the proposal of the Reserve Bank of India that a borrower in a land mortgage bank should serve a period of probation in a primary credit society. It is stated that the present system of taking up debtors without any previous knowledge and of looking only to the security offered by them has hardly any real co-operative element in it and that a mortgage bank must look more to the repaying capacity of the debtor than to the mere value of his assets. It is said that after a debtor has served his period of probation in a village society if it is found that his existing burden of indebtedness is obviously beyond his capacity to bear and such as to disqualify him for help from a land mortgage bank, the Government might appoint conciliation boards which would reduce the capital and interest to a level at which he will be eligible for a loan from the mortgage bank; and a member who did not show the co-operative desire to improve his position and who could not, therefore, be assisted by a land mortgage bank, could be ejected from the society. We have carefully considered this suggestion. First, the examination of all relevant questions of security, repaying capacity, etc., precedes the grant of a loan to an applicant who wishes to take advantage of the land mortgage

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bank; and, his probation in a village society prior to the grant of such loans does not affect the question of his capacity to repay one way or the other. The borrower may be a victim to a misfortune or an unforeseen calamity later and may fail to repay the loan taken and his previous probation in a village credit society can be of no avail in such circumstances. Secondly, it is neither desirable nor proper to compel everyone who wishes to take a loan from a mortgage bank to become a member of a society even though he may not be in need of help from it, or may feel reluctant to accept any responsibility which such membership involves. Thirdly, the suggestion presupposes the existence of a widespread network of village credit co-operatives all over the Province, which is not really the case at present. In our opinion the arrangement suggested while theoretically attractive lacks the element of practicalness. We therefore disapprove of it.

There is, however, no objection to a borrower from a land mortgage bank being advised to become a member, if he chooses, of a credit society or a marketing society where one exists, so that his short-term credit requirements may be met and his instalments may be regularly recovered.

Government and land mortgage banks to operate jointly.

109. Under the Agriculturists' Loans (Amendment) Act, 1935, the Government give loans to agriculturists up to Rs. 1,000 for payment of prior debts as scaled down in accordance with the provisions of the Madras Agriculturists' Relief Act by civil courts or Debt Conciliation Boards. In the three years from 1935–36 to 1937–38, the Government advanced Rs. 25·94 lakhs for this purpose.

The question has been raised whether the Government should continue to advance loans for the relief of indebtedness even in areas where land mortgage banks have established themselves and have been working, or they should confine themselves to areas where no such banks have been started. While it is true that the latter class of places should receive consideration, we do not see any objection in principle to the Government giving loans to agriculturists for redemption of prior debts even in areas where land mortgage banks are operating. In view of the large volume of agricultural indebtedness and the need for effective relief and of the fact that land mortgage banks have so far touched only the fringe of the problem, we do not propose that any restriction should be placed on the simultaneous operations both by the Government and land mortgage banks for the supply of long-term money for the redemption of prior indebtedness.

Margin between Government borrowing and lending rate not to exceed 2 per cent.

110. We would only add that in all cases of loans to agriculturists by the Government, the margin between the rate at which the Government borrow in the open market and the rate at which

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they lend to the ryots should not exceed 2 per cent. It is needless to state that it is essential that the rate of interest should be kept as reasonably low as possible and should be commensurate with the degree of remunerativeness of agriculture. If the rate is heavy in proportion to the income from land, the credit instead of being of benefit to the borrower, will only make his position worse. The margin of 2 per cent is, in our opinion, adequate for the administrative charges.

Linking of land mortgage credit with schemes of insurance.

111. Land mortgage banks are, under their by-laws, expected to encourage among their members the spirit and practice of thrift and self-help. No serious attempt has, however, been made by them to inculcate or enforce habits of thrift and self-reliance. The purpose of the banks is not merely one of conversion of prior debts of indebted ryots carrying a high rate of interest into consolidated debts with a lower rate of interest. A basic condition of any scheme of debt redemption is that the debtor must give up for the future habits of improvidence and uneconomic expenditure. Land mortgage banks should recognize that their role is not one of mere provision of facilities for long-term loans but also of the creation of simultaneous facilities for the development of habits of thrift and savings amongst borrowers. Towards this end we think that land morgage credit should be linked with insurance.

Mortgage banks should, in our opinion, adopt measures to protect the borrower's family against the tragic consequences of undischarged debt in the event of his premature death and to help to restore the mortgaged property to the borrower's heir free of encumbrances. If this mortgage loan is reinforced with a scheme of insurance, the insurance concern will, in such cases, step into the shoes of the borrower, discharge his liabilities to the bank and relieve the family of the burden to the extent of the sum assured, or the balance of the debt outstanding as the case may be, according to the plan of insurance chosen by the borrower.

The linking of land mortgage credit with insurance may be done in one or two ways. If the lending mortgage bank persuades its borrower to take out an insurance policy to cover the death risk, any plan of assurance may be chosen. It may be perhaps more advantageous to the borrowers to take an endowment policy, without profits, for a period coterminous with the loan or a whole life policy without profits, on a single payment or limited number of payments. This is the straight insurance scheme. In this scheme the risk to be covered is the sum assured, and not the diminishing debt. The premiums are to be collected by the land mortgage bank concerned along with instalments of debt, on a system of equated payments and every endeavour

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should be made to keep the policy in force. If the borrower from the mortgage bank is himself not of insurable age or is otherwise deemed an unfit life, the policy may be taken out in the name of some one else in whose life the borrower has an insurable interest under law. We are aware that it is difficult to work this scheme except to a very limited extent, for few borrowers can afford to pay the normal insurance premium in addition to the equated annual payments towards loans. Secondly, it will take a long time before agriculturists become insurance-minded. We would, however, suggest that every effort should be made by the mortgage bank to bring home to the borrower the advantages of taking out a policy of life insurance either for the whole or part of the loan, whenever he can afford to do so and of freeing his heirs from the uncertainty following his premature death.

An alternative scheme is the issue of an assurance policy for dismortgaging the risk to be covered being not the sum assured but the balance of debt that remains unpaid to the land mortgage bank on the date of the death of the assured. This is called the scheme of dismortgaging by guaranteeing payment of the loan outstanding on the date of the death of the borrower, before the expiry of the period for which the loan is taken. Even if the borrower survives the full period of the loan and pays all the premiums, nothing will be payable on the policy, the premiums paid being merely fixed with reference to the diminishing debt which becomes extinguished at the end of the period. In effecting insurance under this scheme, one may stipulate either (*a*) for payment of the premium in a single lump sum, undertaking to pay the land mortgage bank the balance of the debt that remains unpaid at the moment of the borrower's death, or (*b*) for annual payments to cover the risk. In both the cases the amount of the premium will depend on the age of the insured, the rate of interest charged to the borrower by the land mortgage bank and the number of instalments, on which obviously depend the amount of annual equal payments and the total debt to be discharged.

The contract between the insurance society and the land mortgage bank may be varied in respect of the discharge of the outstanding balance. Instead of repaying to the land mortgage bank the entire amount of the outstanding balance due on the date of the death of the borrower, the insurance society may stipulate for the discharge of the balance in instalments which are yet to run under the original contract with the borrower. But this may not necessarily be to the advantage of the insurance society for it now hardly earns even four per cent interest on its funds, while the balance of debt due to the land mortgage bank carries interest at 6 per cent compounded.

As in the case of straight insurance, the borrower under the scheme may also, if ineligible for insurance or is an impaired life, take out the policy in the name of some one in whose life he

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has an insurable interest. This insurance like straight insurance is one against death only, not against default; the only difference being the size of the risk to be covered. In the first case, it is the sum assured, and in the second case, it is the amount of the debt outstanding.

Unlike the case of straight insurance the paramount consideration from the insurance society's point of view in the dismortgaging system is the probable amount of business which it can hope to write in its books in this line. Unless land mortgage banks give virtual monopoly of their business to an insurance society, it will not be practicable for it to work the scheme.

Non-insistence on the taking of more than one share by borrowers.

112. According to the by-laws of a primary land mortgage bank a borrower should put in as share capital one-twentieth of the amount of loan advanced to him; in other words, for every paid-up share of Rs. 10 a member is entitled to get a loan of Rs. 200. Share capital in land mortgage banks is insisted upon as we understand, for three reasons: firstly, it forms an additional guarantee for the debenture-holder; secondly, it makes the shareholder take a sort of tangible interest in the affairs of the bank; and thirdly, the maximum borrowing power of a primary bank is fixed with reference to its paid-up share capital and reserve fund and should not at a time exceed 20 times that amount. We are not, however, sure of the forcefulness of the first two reasons. The primary security for the debenture-holder is the assets of the bank: a debenture is ultimately backed up by the land mortgaged by the borrower. Nor will the holding of shares create a greater interest amongst the members in the affairs of the bank. The case of a village credit society is, however, different and land mortgage banks cannot be put on the same footing. In fact, the rules governing the grant of loans by the Government under the Agriculturists' Loans (Amendment) Act of 1935 for the relief of indebtedness do not require the applicants to put in any initial capital. A close examination of the circumstances of the applicants for loans in mortgage banks may probably show one of two things: either the share-capital required of them has been borrowed from other sources and included in the total amount of loan applied for by them, or if borrowed from other sources, that fact may not have been disclosed to the enquiring officer. If it is the former, the practical effect of it is that the usual process of debentures being raised on the basis of share capital is reversed and share-capital is raised with the help of the debenture money; if it is the latter, the practice drives the borrower to be unfair both to himself and to the bank. In any case, it is unbusiness-like. We, therefore, suggest that ordinarily a borrower should not be required to buy more than one share compulsorily for each loan if the bank can otherwise raise the required owned capital. The bank should issue shares from time to time as the need arises to members

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Co-ordination of work between Debt Conciliation Boards and land mortgage banks.

113. We have already expressed our opinion that suitable arrangements should be made for the payment of scaled down debts of agricultural debtors if full advantage is to be taken of the machinery created for such scaling down and if debtors are to get substantial or immediate relief. It is impossible to expect the Government to command resources adequate for debt conciliation on an extensive scale though we are aware that the Government have been making attempts to give loans to necessitous ryots for redemption of their indebtedness under the amended Agriculturists' Loans Act. Direct liquidation of scaled-down debts by the Government is neither expedient nor desirable. They should, therefore, strengthen the co-operative mortgage banking system with all their material and moral support. We are convinced that apart from any legislative provision which may be made for the payment of debts settled by Conciliation Boards in instalments with the consent of creditors, no scheme of debt conciliation would succeed until an adequate and satisfactory organization for carrying out debt clearance has been built up. Co-operative land mortgage banks offer a suitable machinery for the purpose of enabling solvent debtors to raise the money necessary for the payment of consolidated debts.

Our examination of the position has shown a definite lack of co-ordination of work between Debt Conciliation Boards and land mortgage banks. This may perhaps be due to the fact that conciliation boards were not till recently functioning effectively. With the constitution of 92 boards, one for each Revenue Division except the Nilgiris, the position has, however, changed, and we expect a greater activity on the part of these boards in the immediate future.

In order to ensure the needed collaboration between the Debt Conciliation Boards and land mortgage banks and to quicken the pace of relief, we make the following recommendations :—

Association of land mortgage banks with schemes of debt conciliation.

(1) Applications for loans from land mortgage banks need not necessarily be made only after scaling down the debts. Wherever possible, the debtor may get his debts scaled down and then approach a land mortgage bank for the discharge of the reduced debt. But he may go to a land mortgage bank even without the preliminary process and the bank may itself send the case to a conciliation board if, in its opinion, it is a fit case for conciliation. In any case, land mortgage banks must be allowed to intervene in debt conciliation proceedings if the creditors of the applicant are to be ultimately satisfied by the bank.

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Conciliation Boards to give notice of further proceedings.

(2) Conciliation boards should give notice to the principal long-term agency concerned before they go on with their proceedings.

Representation of mortgage banks on Conciliation Boards.

(3) Either the President or some other office-bearer of the land mortgage bank should be appointed a member of the Conciliation Board when it operates in a particular area.

Measures to minimise delays in the sanction of loans.

114. The delay in the disposal of loan applications by primary land mortgage banks has become a by-word. A minimum time is necessary for a careful scrutiny of applications, examination of the history of the debts, valuation of land, examination of encumbrances and title, enquiries as to the yield from land and repaying capacity of applicants and the legal formalities connected with the preparation and execution of the mortgage. Loan applications pass through several stages in the course of investigation and recommendation and the opinion of those who can speak with practical experience on the subject is almost unanimous that hardly any of the stages—except what we suggest below—can be dispensed with without prejudice to the interests of all parties concerned. A fairly lengthy interval between the receipt of the application and the payment of the money is therefore inevitable. Where the loan is required for the redemption of a mortgage or discharge of an old debt, the time factor is not of great consequence. We are conscious that the mortgage banking system in the Province has been built up with circumspection and labour and that any violent changes may seriously affect the existing structure.

Delays are attributed mostly to the reluctance or apathy on the part of creditors or others concerned to furnish documents relevant for the consideration of questions of prior charges, etc., or sometime to the lethargy of applicants themselves, or in some cases to a lack of method or system on the part of the staff of the primary banks or again to want of adequate staff of Co-operative Sub-Registrars. We are glad to note that the department and the Government have always been alive to this matter and already done whatever is possible to reduce delays; but the delays are still there and are a reproach to the system. We have considered the question at some length and make the following recommendations.

Most of these recommendations are self-explanatory and it is hardly necessary for us to deal with them in any detail. While some of them may be given effect to by executive orders, others require legislative action or change of policy. We venture to think that all our suggestions taken together offer a comprehensive treatment of the question of delays.

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Discontinuance of the special staff of Land Mortgage Bank Deputy Registrars.

(1) Discontinue having separate Land Mortgage Bank Deputy Registrars and vest work connected with land mortgage banks in the District Deputy Registrars. For this purpose, the District Deputy Registrars should be relieved of a portion of their present work; an increase in the number of District Deputy Registrars may be necessary in special circumstances. The District Deputy Registrars have much smaller charges, their local knowledge is bound to be greater, and it is desirable that all the co-operative activities in a district should be co-ordinated and that a unity of purpose, now lacking, should be imparted to such activities.

One of our members, Sri Diwan Bahadur K. Deivasikhamani Mudaliyar, is of the opinion that this recommendation does not meet the requirements of the situation and has suggested the following proviso to our recommendation, namely :—

> " Provided arrangements shall be made for systematic and efficient inspection of primary land mortgage banks as is now done by the present Land Mortgage Bank Deputy Registrars."

We are not in favour of this addition.

Need for increased staff of Co-operative Sub-Registrars and recommendation of loans not exceeding Rs. 5,000 direct by them.

(2) The Co-operative Sub-Registrars in charge of land mortgage banks should be empowered to send all applications for loans not exceeding Rs. 5,000 after they have been sanctioned by primary banks, direct to the Central Land Mortgage Bank. The staff of Co-operative Sub-Registrars has to be increased or strengthened in areas where there are large numbers of loan applications pending investigation and disposal.

In view of our recommendation for the elimination of the present staff of separate Land Mortgage Bank Deputy Registrars, of the increasing volume of co-operative work which the regular District Deputy Registrars have to attend to and of the satisfactory results of the experience of the working of the present arrangements of loan applications of Rs. 2,000 and below being forwarded direct by select Co-operative Sub-Registrars, we consider that a further delegation of powers in the manner suggested is justified. In some of the big districts having a large number of land mortgage banks, Co-operative Sub-Registrars have not been able to dispose of applications quickly. The need for increasing the staff of Co-operative Sub-Registrars in such districts is obvious.

Sanction of loans up to Rs. 2,000 by the President of the Central Land Mortgage Bank.

(3) The President of the Central Land Mortgage Bank may be empowered to sanction all loan applications not exceeding Rs. 2,000. All loans sanctioned by the President should be intimated to the Executive Committee at its next meeting.

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One of our members, Sri N. Satyanarayana, is of opinion that a loan sanction committee consisting of the President, the Registrar and one other member of the Executive Committee of the Central Land Mortgage Bank may be constituted and empowered to dispose of applications for loans between Rs. 1,000 and Rs. 3,000 and that applications for loans above Rs. 3,000 may be dealt with by the Executive Committee.

Our recommendation serves the purpose which Mr. Satyanarayana has in view. The committee proposed by him is, therefore, superfluous and we are not in favour of it.

Machinery to compel creditors to receive payment in person.

(4) At present, land mortgage banks experience a great deal of difficulty in the disbursement of moneys due to the creditors of the borrowers. There should be some machinery to compel creditors and other persons who may have a claim on the properties sought to be mortgaged to appear before the primary bank and to receive payment.

Need for legislation for dispensing with the assignment of mortgage bonds by primary banks to the Central Land Mortgage Bank.

(5) The expense, trouble and inconvenience caused in mortgage bonds being executed to primary banks and assigned in batches to the Central Land Mortgage Banks and the formalities connected therewith may be reduced or eliminated by suitable legislation so as to dispense with actual assignment by primary banks of every mortgage to the Central Land Mortgage Bank.

Obligatory production of documents by creditors and others.

(6) Primary land mortgage banks should be empowered to issue notices to creditors and others to produce for inspection the original documents together with the prior discharged vouchers cited therein within a specified time to enable banks to work out the actual figures due under the provisions of the Agriculturists' Relief Act. In such cases, legal provision is necessary to declare that in event of failure by the creditors to furnish the particulars of the amount due under the provisions of the Agriculturists' Relief Act, or to produce the necessary bonds or copies thereof with endorsement of payment, no interest can be claimed by the creditor after the lapse of one week from the date of receipt of notice given by banks or by debtors.

[The first portion of our recommendation which we decided to make at an early stage of our proceedings has subsequently been covered by an amendment to the Madras Land Mortgage Bank Act (Act XXIII of 1939). Penalty for failure to observe the provisions of section 29-A of the Land Mortgage Banks Act is contained in sub-section (4) of that section. Our suggestion for infliction of a penalty in the manner indicated in the latter part of our recommendation, so far as *creditors* are concerned, requires to be implemented by legislation.]

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Legislative provision for recognition of acknowledgments by parties as valid vouchers for satisfaction of encumbrances.

(7) To obviate difficulties in the securing of vouchers from the claimants as to the discharge or cancellation of their documents mentioned in the encumbrance certificates, legislative provision is necessary to protect the interests of mortgage banks by providing that any encumbrance for which documentary evidence of discharge is not available, a registered notice to the claimants may be caused to be given by banks and on the non-receipt of reply within a specified time from the receipt of notice, the encumbrances might be deemed to have been discharged or to have ceased to be effective and acknowledgments of the notices by the parties should be recognized as valid and proper vouchers for the satisfaction of any kind of encumbrances on the properties offered for mortgage in a court of law.

Statutory obligation for the furnishing of information by landholders in zamindari areas.

(8) Provision should be made in the Madras Estates Land Act to compel landholders to furnish land mortgage banks with information, on requisition, regarding details of holdings and arrears of rents due on the holdings of the applicants for loans, where such applicants hold lands in an estate.

At present great difficulty is experienced in obtaining information in the zamindari areas and this results in abnormal delays in the disposal of applications. We consider that statutory compulsion of the kind proposed is essential.

Proposal to dispense with detailed enquiries as regards small loans negatived.

115. A suggestion has been made in the course of our discussions that in order to avoid delay and expense in respect of applications for loans not exceeding Rs. 500, detailed and minute enquiries may be dispensed with, that the amount of loan in such cases might be fixed as a multiple of the land revenue assessment of the land offered as security and that a local inspection of the land by one officer should be accepted as sufficient. We are inclined to regard it as unsafe in view of the varying conditions of land, soil, fertility, irrigation facilities or yield which characterize agricultural holdings from one village to another or even in the same village. In the present stage of the working of land mortgage banks, we prefer the existing practice to a doubtful expedient however simple or economical it may be.

State Aid.

116. Much of the development and the present position of the land mortgage banking system in the Province is due to the interest evinced by the Government and the various concessions and privileges conferred on the banks. We trust that this liberal

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policy will continue to be followed and extended. In European countries and in America, state aid in more than one form has been given to mortgage credit institutions and we consider that similar treatment may continue to be shown to mortgage banks in the Province.

Continuance of concessions in regard to registration fees and encumbrance certificates.

(1) Land mortgage banks are charged only one-half of the usual registration fee in respect of mortgage deeds executed in their favour by their borrowers and of assignment deeds executed by the banks in favour of the Central Land Mortgage Bank. No fee is charged for applications for encumbrance certificates in respect of loans not exceeding Rs. 2,000 and in the case of other applications, one-half of the usual fees is charged, only a single fee being collected for each application in respect of properties situated in one and the same village irrespective of the result of the search as regards the number of owners. We recommend that these concessions should be continued.

Continuance of Government guarantee.

(2) The principal source of capital obtained by the Central Land Mortgage Bank is from the debentures floated by it from time to time. The Government have guaranteed the principal of and interest on these debentures, have raised the maximum limit of guarantee from time to time, and have also succeeded in getting the Indian Trusts Act amended by the Central Legislature so as to enable the debenture to be included in the list of trustee securities. The present limit of guarantee is Rs. 250 lakhs. This guarantee has enabled the bank to float debentures successfully and to establish for itself a reputation in the money market, though owing to the conditions created by the war and probably the low rate of interest offered, the response from the investing public to the recent issue of debentures has not been encouraging. We have considered the question as to whether the Central Land Mortgage Bank can be independent of Government guarantee and are satisfied that that stage has not yet been reached. The debentures have acquired a certain degree of popularity among long-term investors but it will take time for them to acquire easy marketability. We therefore recommend that the guarantee should be continued.

Measures needed to make the Central Land Mortgage Bank ultimately independent of Government guarantee.

117. We are conscious that the Government guarantee cannot continue for all time to come; nor is it proper to expect any Government to mortgage its credit and revenue for more than a limited amount. It is also equally true that the operations of land mortgage banks are limited by the number of solvent agriculturists fit to receive help from them and by the amount they can obtain

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from the money market. So far, land mortgage banks have touched only the fringe of the problem of indebtedness. They require some crores more even to help the solvent among the agricultural classes. If they undertake to finance land improvements or land purchase they require much more money. In these circumstances it is necessary that Central Land Mortgage Bank should so arrange to do its business that in the long run it may be independent of Government guarantee. This is possible of attainment only if the financial position of the bank is intrinsically sound and its methods of business are such as to inspire confidence among investors. Some of the vital factors which contribute to this result are briefly :—

(1) The building up of large share capital and reserve fund,

(2) provision for bad and doubtful debts,

(3) creation of sinking fund, and

(4) irredeemability of debentures for a minimum period.

The Central Land Mortgage Bank has been alive to the importance of these factors and has been steadily building up its share capital and reserve fund. It has also created a bad debts reserve to meet any unforeseen losses arising from bad debts. It has made its debentures irredeemable for a period of ten years and created confidence among investors. Recently, on the advice of the Reserve Bank of India, it has created a sinking fund in order to provide for the amortization of debentures by setting aside and investing every year out of its realizations a fixed sum which, with compound interest at the rate at which it issues debentures, will yield, at the end of the period for which debentures are issued, an amount equal to that which has to be repaid. We suggest, following the common practice in European countries, that the bank may make a beginning to utilize the sinking fund for buying up its debentures in the open money market in order to maintain a steady price of debentures and to increase their popularity among investors. The sinking fund may also be utilized partly in purchasing subsequent issues of debentures which it may float to ensure their success in the money market. It has been suggested that, in order that the open market operations of the bank regarding the purchase and sale of its debentures from the sinking fund may be carried on properly and that the lowest rates of interest on debentures which would be acceptable to the investing public may be estimated, it is essential that the bank or the trustee should be in close touch with the money market through a reputed firm of brokers. This we commend to the Central Land Mortgage Bank and the Trustee for consideration.

Financial accommodation to Central Land Mortgage Bank in abnormal times.

118. The present war has created an abnormal financial situation and at the time of writing our report, we notice that

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the Central Land Mortgage Bank has been feeling rather anxious about its capital requirements. The period of glut of money has almost disappeared. Money has become tight; the bank will now have to pay a higher rate of interest on its debentures. Further, it is not likely that in a period of rising interest rates the investing public would prefer to invest their money in debentures extending to 20 or 25 years. The rise in interest rates may not perhaps be a matter of hardship to the ultimate borrower, because of an increase in agricultural prices due to war conditions. But then from the bank's point of view; it may not be sound to commit itself to a high rate of interest for too long a period. Long-dated securities, therefore, are not a sound proposition in a period of monetary fluctuations such as has been brought about by the war. While these conditions make it necessary for the bank to limit its business, it cannot altogether stop further transactions. We suggest that during such times the Government should come to its assistance and put it in possession of funds either from their own resources or from a loan which they might choose to float for this special purpose on better terms than the bank can do.

Need of help from the Reserve Bank of India to land mortgage banks.

119. It seems to us, in this connexion, necessary to refer to the kind of help which land mortgage banks can expect from the Reserve Bank of India. It has all along been feeling chary of extending its help to mortgage banks. We agree with the Reserve Bank that it has to maintain absolute fluidity of its resources and cannot consequently lock up its funds in the debentures of land mortgage banks and that the land mortgage banking movement should direct its appeal to the genuine investor. We, however, see no reason why either the Reserve Bank should not do something to increase the popularity of debentures by itself purchasing a limited number of debentures issued by the Central Land Mortgage Bank, particularly as the debentures are included in the list of trustee securities, or it should not make advances on any such debentures. We suggest that the Provincial Government may take up the matter with the Reserve Bank.

Second charge of land mortgage banks on produce.

120. Land mortgage banks should normally have a charge only upon the land, and not upon the produce. In view of our recommendation in favour of the creation of a first charge on the produce raised by a member of a village credit society, we suggest that the claims of the mortgage bank to the crop should be postponed to the extent of priority of the primary credit society or should constitute a second charge if he is a member of both the bank and the society and that section 9 of the Land Mortgage Banks Act be suitably amended.

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Amendment of the Land Mortgage Banks Act to make certain debts binding on minors.

121. It has been brought to our notice that certain legal difficulties exist regarding the binding nature of loans for improvements of lands for the creation of economic holdings of minors and that the protection given by section 32 of the Madras Land Mortgage Banks Act does not appear to be adequate. This section provides that the improvement of agricultural land or of the methods of cultivation shall not be regarded as purposes not binding on a member of the joint Hindu family. It is open to question whether the loan for such a purpose will be binding on the minor members of such a family and whether the section affords sufficient protection to land mortgage banks. In view of the doubts expressed, we recommend that the Act be amended so as to make it clear that such debts are binding on the minor members of a joint Hindu family.

Alienation of land to take effect from date of registration.

122. The practice in land mortgage banks is that they obtain encumbrance certificates for lands proposed to be mortgaged to them for a period of 23 years preceding the application. After the sanction of the loan and before the disbursement of the amount, a further encumbrance certificate up to the date of execution of the mortgage deed is obtained. Under the law of registration, however, a document can be registered within four months from the date of execution. Cases may arise where a borrower may execute a bond in favour of a third party before mortgage to the land mortgage bank and get it registered within four months subsequent to the mortgage to the land mortgage bank. In such cases the mortgage to the third party will be the first charge and that to the mortgage bank will be a second charge. The creation of the charge to the third parties will not be revealed in the second encumbrance certificate now obtained by primary banks. To protect the interests of mortgage banks therefore a further encumbrance certificate is now obtained covering a period of four months from the date of mortgage to the land mortgage bank. Thus primary banks obtain—

(*a*) Encumbrance certificate for a period of 23 years prior to the date of loan application;

(*b*) a second encumbrance certificate from the date of application to the date of execution of the mortgage bond in their favour before disbursement of loans; and

(*c*) a third encumbrance certificate for four months from the date of execution of the mortgage bond in their favour.

Even the third encumbrance certificate, however, does not afford complete protection to land mortgage banks, as the loans are disbursed before the certificate is obtained. It will be a hardship if the disbursement of the loan is held up for four months from the date of execution of the mortgage bond by the applicant.

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We, therefore, suggest that legislative provision should be made so as to make all alienations of land to take effect, so far as priority is concerned, only from the date of registration, at least in the case of mortgages in favour of land mortgage banks, if a general provision of this kind is not immediately possible.

All cases of attachments of or charges on immovable properties created by decrees of courts to be communicated to Registration department.

123. Great difficulties have been felt by land mortgage banks by the absence of knowledge of charges created on immovable properties by decrees of courts. At present the encumbrance certificates issued by the Registration department do not disclose attachments of or charges on land created by orders or decrees of civil courts as copies of these orders of attachments and charges are not registered in the books of the Registration department and consequently land mortgage banks do not have certain knowledge of their existence. It is likely to result in some cases in the impairment of the securities offered for the loans advanced by the banks. We, therefore, recommend that legislative provision may be made compelling courts to forward to the Registration department all cases of attachment of and charges on immovable properties created by their orders or decrees and for the registration of sales of immovable properties effected by them.

If there be any difficulty in the registration of attachments on account of their fluctuating nature, civil courts may be required to maintain a register of attachments issued by them from time to time and mortgage banks may be permitted to obtain such information as is contained therein on application.

Continuance of Co-operative Sub-Registrars free of cost.

124. The Government have sanctioned at their expense a staff of Co-operative Sub-Registrars for the scrutiny of applications received by land mortgage banks, valuation of properties offered for mortgages and periodical revaluation of lands. Land mortgage banks are rendering an essentially useful service to the indebted ryots even as the Government themselves do under the Agriculturists' Loans (Amendment) Act, 1935, and it is only proper that the Government should continue to make provision for the necessary staff to ensure the efficiency of mortgage banks. The recovery of the cost of the staff from the banks would hamper their progress, cripple them financially, prevent them from building up reserves, and increase the cost of loans to the ultimate borrowers. Nor do we find any moral justification for recovering the cost so long as mortgage banks render a much-needed economic service to the indebted agricultural community which it is the duty of an enlightened State to provide. We, therefore, strongly urge that the Government should continue the present staff of Co-operative Sub-Registrars at their own cost as heretofore.

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Maintenance of supervisors by land mortgage banks.

125. A question has been raised as to the need for the present staff of supervisors maintained by primary mortgage banks at their expense. On a consideration of the matter, we find that supervisors are engaged in an essentially preparatory work connected with loan applications and that they have ample work to attend to. We are, therefore, of the opinion that primary mortgage banks must have their own supervisors as at present.

Audit of primary land mortgage banks by qualified auditors.

126. We are informed that the accounts of primary mortgage banks are audited sometimes by Junior Inspectors and at other times by Senior Inspectors and that there is no uniformity in the arrangements made for their audit. We consider that the audit of the banks should be done by qualified auditors of the rank employed for the audit of central banks and big urban banks, and not by the inspectors who now audit the accounts of village societies.

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CHAPTER V.—AGRICULTURAL CREDIT SOCIETIES.

General position of agricultural credit societies.

127. Primary agricultural credit societies constitute the bulk of co-operative organizations in the Province and the soundness of the co-operative credit structure ultimately depends upon the soundness of primary societies. Before we proceed to make our recommendations for the future reorganization of primary agricultural credit societies, we propose to make a brief review of their present financial position, study their pathological condition, prescribe suitable remedies and suggest a scheme of reconstruction.

On 30th June 1939 there were 10,743 primary agricultural credit (unlimited liability) societies in the Province. The following statement shows the position for a period of 20 years—

Primary Agricultural (Unlimited Liability) Credit Societies.

Year.	Number of societies.	Number of members.	Average membership per society.	Loans outstanding against members.	Average loan per member.
(1)	(2)	(3)	(4)	(5)	(6)
				RS. LAKHS.	RS.
1920–21	5,199	274,808	52	159·65	58·1
1921–22	6,190	325,536	53	193·72	59·5
1922–23	7,076	375,500	53	230·68	61·4
1923–24	8,077	437,292	54	274·64	62·8
1924–25	9,131	486,105	53	311·16	64·0
1925–26	9,787	522,061	53	345·70	66·2
1926–27	10,954	581,366	53	428·79	73·5
1927–28	11,911	627,774	53	503·04	80·1
1928–29	12,323	652,285	53	538·23	82·5
1929–30	12,478	670,037	54	573·51	85·6
1930–31	12,246	670,037	54	573·51	85·6
1931–32 to 1933–34 .. .. *	..	—	..	..	..
1934–35	11,112	531,225	48	351·15	66·3
1935–36	10,943	524,986	48	344·54	65·7
1936–37	10,456	509,307	51	316·88	62·3
1937–38	10,451	522,615	51	321·02	61·4
1938–39	10,743	565,301	52	351·99	62·2

* Separate figures for agricultural *credit* societies alone are not available in the Administration Reports for the years from 1931–32 to 1933–34 as the statements were omitted to be printed during the period.

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Year.	Share capital.	Borrowing.	Reserve fund and other funds	Working capital.	Profit.	Loss.
	(7)	(8)	(9)	(10)	(11)	(12)
	RS. LAKHS.	RS. LAKHS.	RS. LAKHS.	RS. LAKHS.	RS. LAKHS.	RS. LAKHS.
1920–21	18.05	156·23	9·58	183·86	1·93	2·84
1921–22	22·87	188·27	10·71	221·86	3·35	3·17
1922–23	28·47	222·66	12·89	264·02	4·02	4·51
1923–24	35·39	262·74	15·66	313·80	4·68	6·33
1924–25	42·48	295·18	18·88	356·54	5·68	7·01
1925–26	48·59	325·02	22·73	396·34	6·64	8·23
1926–27	57·73	401·31	27·27	486·32	9·20	9·51
1927–28	66·60	468·51	32·98	568·09	9·62	10·97
1928–29	73·40	495·00	39·29	607·40	12·22	11·76
1929–30	78·79	525·70	46·65	651·14	11·30	13·08
1930–31	80·91	505·10	53·88	639·89	7·88	20·37
1931–32 to 1933–34 .. .. *	..	..	..	..	..	..
1934–35	58·13	314·88	83·54	456·55	9·26	23·47
1935–36	55·76	307·35	89·62	452·73	7·21	21·01
1936–37	51·80	280·48	96·68	428·96	6·34	19·01
1937–38	51·25	285·92	98·61	435·78	4·91	19·26
1938–39	53·11	316·89	78·42	471·11	4·03	20·29

* Separate figures for agricultural *credit* societies alone are not available in the Administration Reports for the years from 1931–32 to 1933–34 as the statements were omitted to be printed during the period.

There was a considerable expansion of these societies during the period from 1920–21 to 1929–30, when the highest number (12,478) was reached. In view of the suggestion made by the Townsend Committee in the meantime that immediate attention should be given to dormant societies by either reviving or liquidating them without delay and of the economic depression that subsequently set in, there was a general mortality among all types of societies; a number of bad societies were weeded out during the last decade with the result that the number of societies which stood at 12,748 on 30th June 1930 reached the lowest level (10,451) during 1937–38. During the year 1938–39 there was, however, a steady increase in the number (10,743) owing partly to the demand which had arisen from the debt relief measures undertaken by the Government and partly to improved general conditions and a fresh wave of enterprise and the consequent need for credit by the agricultural classes.

Increase in overdues.

128. The progressive decline in the number of societies during the period from 1930–31 to 1937–38 was due to the fact that a number of societies had to be liquidated on account of their general unsatisfactory condition. One of the indications of their steady

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deterioration is the rise in the percentage of overdues from members to agricultural credit co-operatives. The following statement shows the position for a period of 20 years :—

Statement showing the percentage of overdues (principal and interest) from members to agricultural credit societies from 1919–20 to 1938–39.

Year.	Principal.			Interest.		
	Demand.	Balance.	Percentage of balance to demand.	Demand.	Balance.	Percentage of balance to demand.
(1)	(2)	(3)	(4)	(5)	(6)	(7)
	Rs. LAKHS.	Rs. LAKHS.		Rs. LAKHS.	Rs. LAKHS.	
1919–20 ..	68·32	16·38	23·98	15·91	4·79	30·1
1920–21 ..	95·49	29·28	30·66	19·56	6·77	34·6
1921–22 ..	119·87	37·26	31·08	25·95	8·56	32·9
1922–23 ..	137·95	49·61	35·96	32·18	11·42	35·47
1923–24 ..	163·96	68·36	41·69	38·97	15·28	39·02
1924–25 ..	201·57	84·56	41·95	47·41	19·09	40·27
1925–26 ..	233·57	107·79	46·15	56·27	25·46	45·25
1926–27 ..	265·63	121·29	45·66	64·82	29·94	46·20
1927–28 ..	316·74	135·57	42·81	78·02	34·78	44·58
1928–29 ..	361·12	147·73	40·90	91·07	39·32	43·17
1929–30 ..	379·72	176·24	47·00	96·46	45·82	47·50
1930–31 ..	427·30	254·51	59·56	108·70	61·96	57·00
1931–32 ..	436·88	275·73	63·11	121·97	69·60	57·06
1932–33 ..	391·46	264·41	67·55	122·10	77·09	63·14
1933–34 ..	356·24	251·89	70·71	123·30	83·73	67·91
1934–35 *..	324·26	225·84	69·65	120·28	83·72	69·60
1935–36 ..	300·58	205·30	68·30	101·80	68·41	67·20
1936–37 ..	277·70	176·15	63·43	83·36	55.11	66·11
1937–38 ..	257·80	163·42	63·39	71·69	49·09	68·48
1938–39 ..	265·73	162·25	61·06	66·34	45·51	68·59

* The figures for years from 1934–35 to 1938–39 exclude those relating to land mortgage banks.

The percentage of balance to demand in agricultural credit societies on 30th June 1920 was 23·98 per cent under principal and it reached 41 per cent in the pre-depression year ended 30th June 1929. Since then there had been a marked rise in arrears till 1933–34 when they reached 70·71 per cent; thereafter a gradual fall is noticeable. On 30th June 1939, the percentage of arrears was 61·06; the percentage for long-term (medium-term) loans was 72·13 and that for short-term loans was 45·93. The overdues mounted up by two and half times in a period of 20 years.

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The following figures regarding agricultural credit societies (unlimited) give a comparative idea of the position of overdues in some of the British Indian Provinces for the year 1936–37 :—

Province.	Amount of loans outstanding. RS. LAKHS.	Amount overdue. RS. LAKHS.	Percentage of overdues to outstandings.
Madras	351·99	162·07	46·1
Bombay	247·36	128·24	51·8
Bengal	396·39	345·80	87·4
United Provinces	75·91	36·21	47·7
The Punjab	629·40	30·34	4·8
Bihar	104·18	96·40	92·5

NOTE.—In the Punjab, the demand is flexible and is fixed in the months of April and October according to the condition of the harvest and the member's capacity to repay, without reference to the instalments stipulated in the bond. The balance, if any, left unpaid out of the demand so fixed is not carried forward. The paying capacity of the member is judged at each harvest and a reasonable amount fixed.

The position in Madras, as may be gathered from the statement, does not appear bad. We cannot, however, afford to be complaisant in the matter. The overdues (principal) of agricultural *credit* societies on 30th June 1939 were Rs. 162·25 lakhs while outstanding loans were Rs. 351·99 lakhs. In other words, the overdues work out to about 46·1 per cent of the loans outstanding against members. The amount of overdue interest recoverable from members on that date was Rs. 45·51 lakhs; it represents interest for 20 months on the entire loans outstanding against members at an average rate of 7½ per cent. The arrears in principal of agricultural credit societies to central banks and others as on 30th June 1939 were Rs. 111·25 lakhs, working out to a little over 34 per cent of loans and deposits payable by them to central banks and others. Viewed in this manner, the position cannot be considered wholly satisfactory. The overdues tended to rise even before the depression set in, but the position was aggravated by the sharp fall in agricultural prices and the consequent inability of agriculturist borrowers to repay.

Period of overdues analysed.

129. What is, however, a matter for anxiety is the age of overdues in these societies. An examination of loans in 89 bad societies—three or four taken at random in each district—has disclosed that of the total loans aggregating to Rs. 3·65 lakhs on 30th June 1939, Rs. 3·28 lakhs (90 per cent) were overdue; of this amount, Rs. 2·67 lakhs were overdue for five years and Rs. 0·14 lakh were overdue between four and five years, Rs. 0·19 lakh between three and four years, Rs. 0·12 lakh between two and three years, Rs. 0·11 lakh between one and two years and Rs. 0·15 lakh for less than one year.

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Loans covered by decrees and arbitration references.

130. Another factor which has some bearing on the position is that as much as Rs. 67·55 lakhs were covered by decrees obtained against defaulters on 30th June 1939 and about 15 lakhs were covered by properties purchased by societies (the majority of which are agricultural credit societies). The amount covered by arbitration references pending decree on the same date was Rs. 8·89 lakhs.

Number of C and D class societies.

131. The measure of deterioration of societies is furnished by the large proportion which the C and D class societies bear to the total number of societies classified. The following statement shows the position in this regard :—

Classification of Societies.

Year.	Total number of agricultural credit societies.	Of the societies shown in column (2) number o societies classified under			
		A	B	C	D
(1)	(2)	(3)	(4)	(5)	(6)
1934–35	10,744	152	1,158	7,774	1,660
1935–36	10,796	172	1,088	8,033	1,503
1936–37	10,729	157	1,168	7,903	1,501
1937–38	10,794	170	1,216	7,803	1,605

" Loss societies." *

132. Another point of interest in this connexion is the large number of what may be called " loss societies." The number of loss societies has ranged from 50 to 55 per cent of the total number of societies during the last ten years. During the year 1938–39, 55 per cent of agricultural credit co-operatives worked at a loss totalling Rs. 20·29 lakhs, while the remaining societies realized a net profit of Rs. 4·06 lakhs. The profits of these societies have shown a rapid decline from Rs. 9·30 lakhs in 1934–35 to 4·06 lakhs in 1938–39.

Societies in charge of agents.

133. It is known that when societies do not work properly owing to neglect by the panchayats or when their financial condition is not sound, the panchayats are superseded voluntarily and agents are appointed, under the by-laws, to manage their affairs until they straighten out things and put the societies in normal working order. The number of such societies on 30th June 1939 was 961 as against 1,236 societies at the end of the previous year.

Societies which have not borrowed from central banks.

134. A fairly good proportion of societies affiliated or indebted to central banks have practically ceased to be active suppliers of rural credit either because they are moribund or because they are already overdue and cannot approach the banks confidently for

* By " loss societies " is meant societies in which overdue interest on loans due by members exceeds the difference between the total assets and total liabilities.

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fresh loans. On an examination of the position in respect of 6,979 agricultural societies indebted to 24 central banks on 30th June 1939, we find that 724 societies (13·7 per cent) have not borrowed for one year, 434 (6·2 per cent) for two years, 239 (3·4 per cent) for three years and 2,498 (35·8) for over three years. In other words, about 60 per cent of the societies indebted to 24 of the central banks in the Province have not borrowed for periods of a year and above. It may be seen that the number of societies that have not borrowed for over three years is the highest. This is a position which we cannot regard with any degree of satisfaction. These societies are in a state of suspended animation.

Societies in default to central banks.

135. We may perhaps examine the position from another point of view. Of 7,376 societies of all classes indebted to 24 central banks in the Province, 4,887 societies (or over 66 per cent of them) were in default to them on 30th June 1939. It is needless to add that the majority of these societies are agricultural credit societies.

Causes for the present unsatisfactory position analysed.

136. We may now recapitulate the position. The large number of liquidations in recent years, the increasing number of D class societies and an equally increasing number of societies which have not borrowed for years, the marked rise in the arrears from members to societies and from societies to financing banks, the increasing number of arbitration references and decrees and the forced purchase of lands of members by societies in execution of decrees, the voluntary supersession of panchayats and the appointment of agents for the management of societies—these are all the elements of a situation which cannot be viewed with equanimity and which indicate a general lack of vitality on the part of many agricultural credit co-operatives. It is needless for us to examine in detail the causes which have brought about this stalemate in the rural credit organization. They have been time and again pointed out by the department and by many committees of enquiry which went into this subject. Apart from those factors to which the Townsend Committee alluded in its report and which have persisted to operate in varying degrees of intensity, viz., indifference of panchayatdars (who are in many cases themselves defaulters), lack of proper supervision, lack of proper attention to the granting of extensions, advancing of loans without proper consideration of their purpose and repaying capacity of members, binami transactions, failure to take prompt and sufficient steps for the recovery of overdues, illiteracy and ignorance of co-operative principles among members of primary societies, bad harvests, etc., the one single major factor which contributed to the very marked rise in overdues is the economic depression and the slump in agricultural prices during the period which followed the enquiry by the Townsend Committee (1927) into the condition of the co-operative movement in the Province.

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We have already referred to the disastrous consequences of the depression on the agricultural industry and the resulting inability of agriculturist debtors to meet their obligations to their creditors. During the boom members borrowed heavily from societies and others, and a majority of them could repay their instalments with some degree of regularity. But with the depression their cash income fell markedly; they could not make both ends meet, much less repay their debts to societies. The attached graph may perhaps be instructive in this respect; it shows the trend of agricultural prices and of overdues in agricultural credit co-operatives and of the very close approximation between the rise and fall in prices on the one hand and of the fall and rise in arrears on the other. It is suggestive alike of the mistakes in credit policy in the past and of the need for a wise direction of credit policy in the future. An agricultural boom is characterized by overborrowing, partly unproductive, the effects of which manifest themselves markedly in the following depression.

The problem, therefore, that faced the societies, central banks and the department was twofold, (1) to lighten the burden of members' debts so as to bring them to a level with the prevailing agricultural prices and to recover the debts gradually without undue hardship to them, and (2) to regulate the supply of fresh credit to members with due regard to the altered circumstances of agricultural economy and the reduced paying power of agriculturist members.

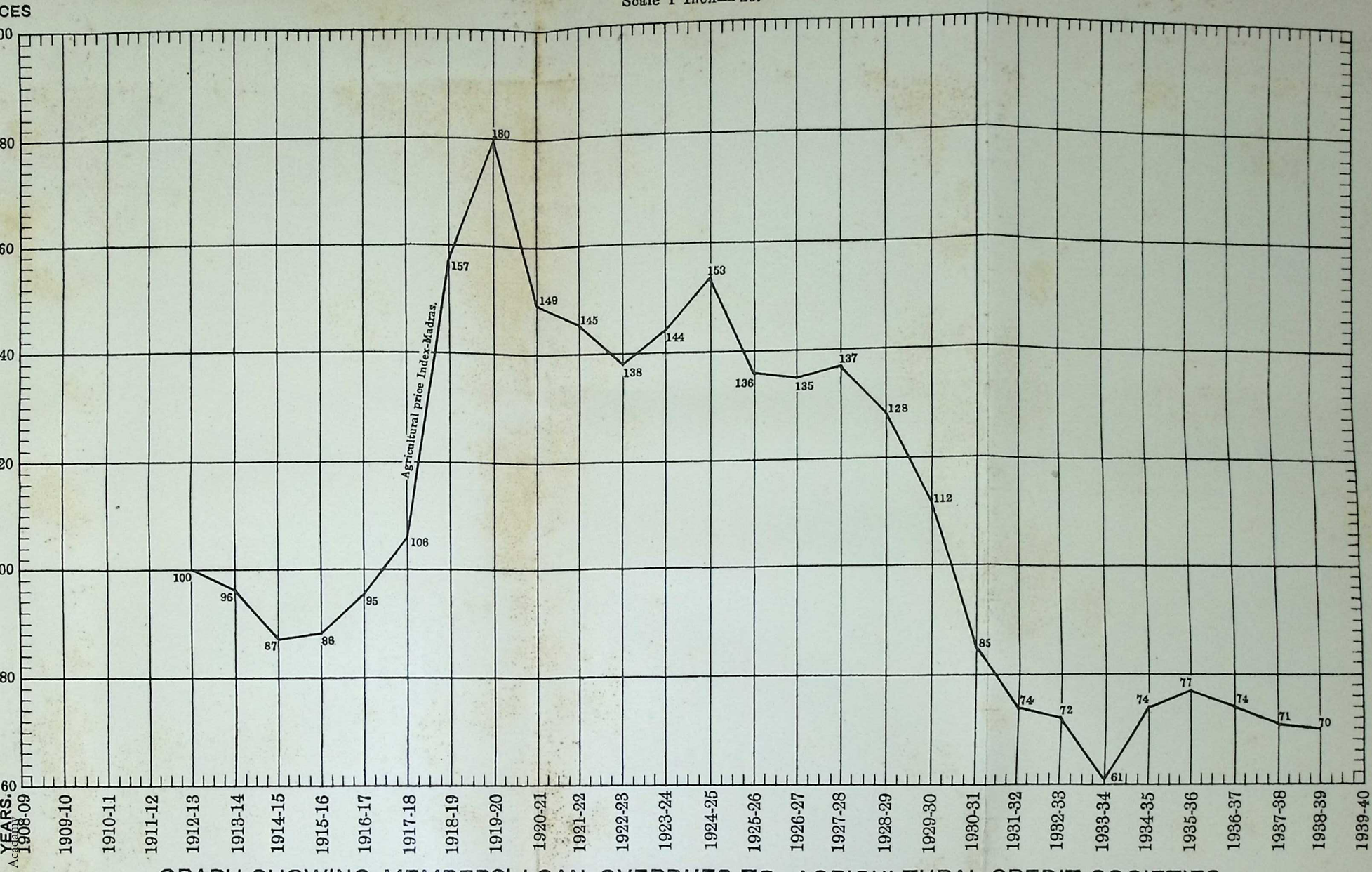
We are glad to record that immediately after the depression set in the Co-operative Department and Co-operators became alive to the need for the revival or reorganization of indifferent societies, for liquidating bad ones and stimulating dormant societies after an examination of individual loans in them.

Schemes of rectification and consolidation at work.

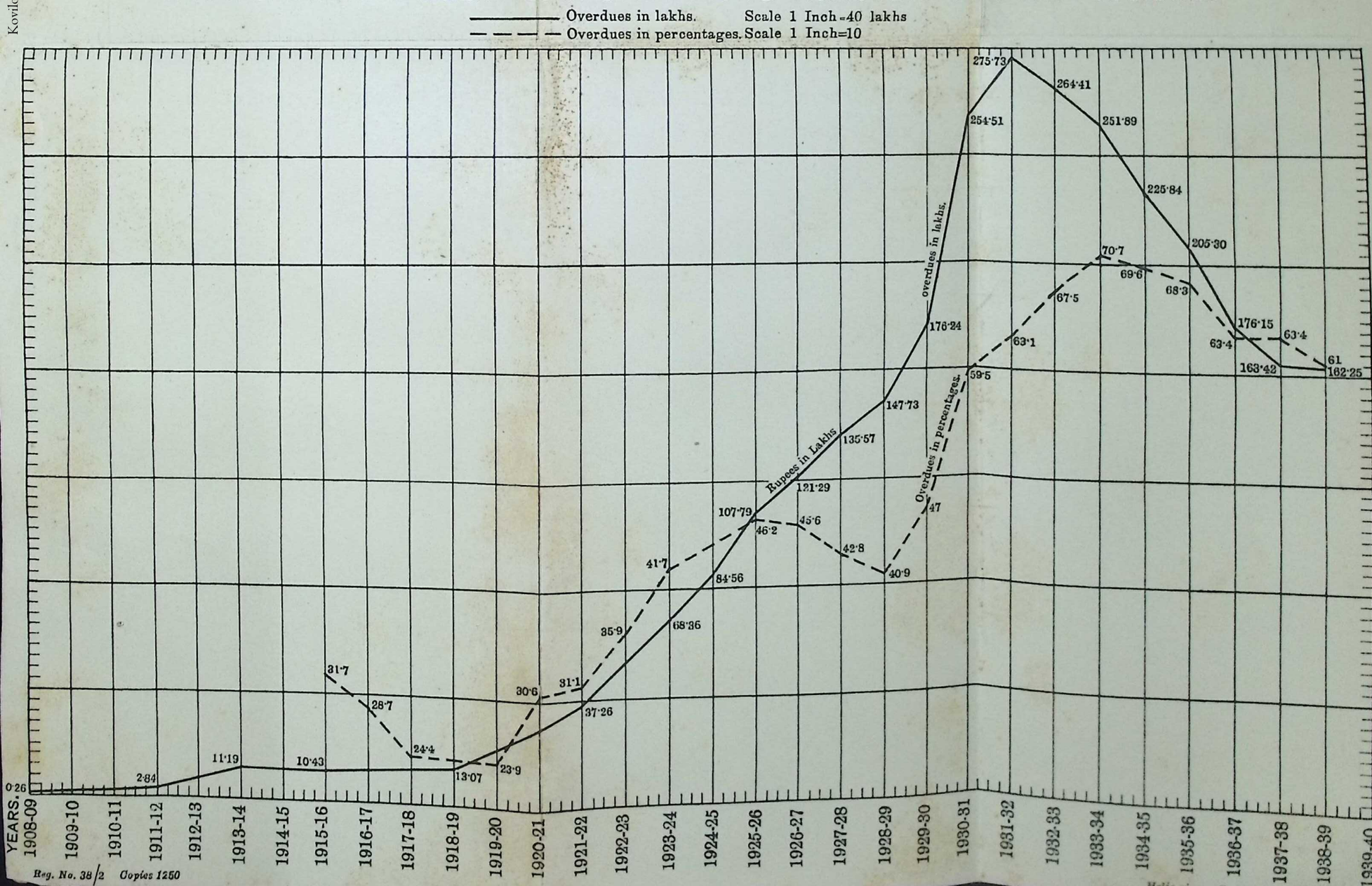
137. The schemes of rectification and consolidation of societies have been in force for about eight years. The chief features of these schemes are a classification of loans according to security and the ability of borrowers to repay loans out of their income or otherwise and the taking of suitable action either for the recovery of loans, within a given period or within a period to be extended or the closing of loan accounts of members and coercive recovery of debts according to the circumstances of each case. Two of the important objects of the scheme are also to get all doubtful loans secured by obtaining additional pledges from borrowers if that is possible and to ascertain bad debts or debts which may prove irrecoverable even after all possible steps have been taken for realization. These schemes have been very helpful in the determination of the real financial position of societies and of the soundness of loans outstanding against members; they have enabled financing banks to ascertain bad and doubtful debts in societies with a more or less reasonable degree of accuracy and to make

GRAPH SHOWING THE VARIATIONS IN AGRICULTURAL PRICES

Scale 1 Inch = 20.



GRAPH SHOWING MEMBERS' LOAN OVERDUES TO AGRICULTURAL CREDIT SOCIETIES



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adequate provision for any loss that may eventually arise. Another result is that a good portion of sticky loans has been recovered. The following statement gives a brief statistical view of the result of carrying out of the programme of rectification up to 30th June 1939 :—

(1)	Number of societies in which examination was conducted.	6,981
		RS. LAKHS.
(2)	Total amount of loans including interest involved in them.	295·47
(3)	Of the above sum, the amount which stands on adequate security.	213·47
(4)	The amount which stands on inadequate security.	82·00
(5)	Of this, the amount either collected or for which additional security has been obtained.	22·72
(6)	Balance still ill-secured	59·28
(7)	Estimated bad debts in these societies ..	33·53
(8)	Of this, the amount that will affect the central banks.	6·80
(9)	Amount of loans collected during rectification work.	77·74

One of the principal objects of these schemes has been to recover the arrears from members without undue hardship to them by lightening the burden as far as the financial resources of societies permit. The endeavours of societies and central banks to reduce the burden of old arrears took the form of extending to members of societies several concessions, the chief of which were the reduction in the rates of interest on loans, abolition of penal interest, grant of extension of the period of repayment of loans, scaling down of debts in deserving cases and reduction in the rate of interest on loans referred for arbitration to 6¼ per cent irrespective of the contract rate.

Need for a comprehensive plan of reconstruction of societies.

138. While we appreciate the efforts made so far in the rehabilitation of societies, we consider that a more comprehensive plan of revival and reconstruction of societies should be undertaken. The existence of a fairly large number of moribund or bad societies is a bar to the progress of new schemes designed to widen the scope and utility of co-operative organizations and the diffusion of co-operative activities in the country side. We feel that any new orientation of agricultural credit organizations should proceed on parallel lines : one is the reconstruction of existing societies and the other is the execution of a five-year plan of expansion of societies, both intensively and extensively. We, therefore, consider it

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important that the plan of reconstruction of bad, moribund or indifferent societies which we have outlined below should be taken in hand as early as possible.

Features of proposed reconstruction of societies described.

139. We now proceed to outline the scheme of reconstruction of societies and the steps to be taken for the recovery of the frozen assets in societies.

First and second categories of societies and remedies.

140. Societies may be broadly divided into four categories. The first category comprises societies which are not indebted to any financing bank or outside creditors. The second category consists of societies whose debts to central banks and outside creditors could be discharged by setting off the share capital held and reserve funds invested by them in central banks. We do not think that either of these categories present any difficulties. Debts which have been definitely ascertained to be bad should be written off and suitable arrangements for the collection of other debts will have to be made. These societies may scale down the members' debts on the principles of the Debt Relief Act, if they so desire, in consultation with the Registrar and the financing bank concerned.

Third category of societies and remedies.

141. The third category consists of societies whose liabilities to central banks and outside creditors exceed their investments in central banks by way of share capital and reserve funds. In these societies loans will have to be classified into good, doubtful and bad. Such an examination of loans has already been made in many areas in order to ascertain the security behind the loans from the central bank's point of view; an additional examination, wherever necessary from the societies' point of view, may be made. Members' loans which are considered doubtful should be treated on a separate footing in the manner we have indicated below on the basis of the well-known principles of debt relief—a reduction of the rates of interest on loans, scaling down of principal repayment of reduced debt in instalments and write-off of bad debts. We suggest that the rate of interest on doubtful loans outstanding against members of societies should be charged at a rate not exceeding 7½ per cent per annum (the general rate should be 6¼ per cent) and that the reduced rate should take effect from the date of last payment, the excess amount due being written off the accounts. We consider that no penal interest should be charged in future, all penal interest now outstanding, if any, against members being written off entirely with the previous consent of the central bank to which the society is affiliated. In really hard cases, the whole of overdue interest or a reasonable portion of it may be written off by the society with the previous consent of the central bank provided the good assets of the society (namely, the

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recoverable portion of the loans outstanding) are sufficient to pay off its outside debts (both principal and interest) and the share capital of its members.

A portion of the principal due by the members of the society may also be written off in really deserving cases with the previous consent of the central bank, provided, again, its remaining assets are adequate to pay off its debts in full. There should be no hesitation on the part of societies to scale down the principal amount to a level where members may be reasonably expected to repay from their income over a reasonable period. We consider that it is very necessary that societies should boldly face the problem of overdues and tackle it effectively in order to see that the flow of fresh credit is not choked by the continuance of such debts. The process of debt conciliation on the lines suggested is necessary to put this category of societies on a proper footing.

An extension of time for the repayment of outstanding or reduced debts may, if necessary, be given up to a period of five years with the previous consent of the central bank concerned. If this period be found insufficient, the instalments may be so refixed as to put them within the repaying capacity of borrowers and a long-term loan may be obtained from the central bank or from some other source; if no such loan is obtainable, no extensions beyond five years should be given. It is, however, necessary that arrangements should be made by the authorities concerned—central banks and the department—for obtaining such long-term accommodation in order to enable societies to place the members' loans on a new footing.

In the matter of collecting arrears, we suggest that societies should, as far as possible, avoid purchasing land or other immovable property. Past experience has shown that the societies cannot satisfactorily manage such properties and it is futile to expect that they will do so in the future; nor is it advisable for them to allow loans to be locked up in that manner. If in any area it is found difficult to recover the arrears unless recovered in kind, special arrangements will have to be made for such collection and for the *immediate* disposal of the produce without risk to the societies.

As regards debts which have been definitely ascertained to be bad, that is to say, debts which are not recoverable, we suggest that they should be debited to the profit and loss account of societies and set off in the following order against—

(i) gross profits of the year;

(ii) bad debt reserves of societies, if any (this may be done at once);

(iii) the statutory reserve funds of societies (the set-off against such funds need not be made immediately; if there

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is a chance of societies recouping the loss involved in the course of three years, adjustments may be held up for that period);

(iv) any grant made by central banks out of their own bad debt reserves (this means that central banks agree in effect to write off their own debts to the extent of the grant and to recoup it from their bad debt reserves);

(v) any grant made by central banks out of their other sources (that is, funds specially created for the purpose); and

(vi) any common pool to which societies in the area of each central bank may voluntarily contribute a portion of their reserve funds.

Need for immediate write-off of bad debts explained.

142. It is hardly necessary for us to justify the proposal we have made in favour of writing off bad debts. When a member has definitely no assets and no repaying capacity and there are no chances of recovering the debt either from him or his sureties, if any, it does not serve any purpose for the society to show such debt in its books. As ultimately it will have to be written off, it is well to do it forthwith from its available reserves or from such reserves as the financing bank to which it is indebted is able to place at its disposal, or, again, from any other source from which financial help may be forthcoming provided that by such process there is a chance of the society being put again on its feet. The liquidation of the society does not achieve the desired end. It may result in selling up the members and the acquisition of land by the society. But even then the bad debts must be made up from the accumulated reserves: if this is so, there is no good reason why the society should not set-off the bad debts against its reserves or the bank's reserves in the first instance and save itself from wreck or dissolution and its members from immediate coercive recovery of debts and the hardships which it involves. We are in entire agreement with the view that liquidation not only kills the society but brings the movement into disrepute and leaves a void in the structure of agricultural finance and that it is better to follow the bold policy of deciding at the outset what losses are inevitable and to make provision for recovering the rest in easy instalments. A process of cleaning up of bad debts and of debt conciliation is an essential pre-requisite to the rehabilitation of the rural credit movement.

Creation of a voluntary pool of reserve funds justified.

143. The question of the voluntary pool of reserve funds referred to in our scheme requires an explanation. The majority of us originally felt that the statutory reserve funds of primary societies in the area of each central bank and of the central bank

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concerned might be compulsorily pooled into a trust fund and the Registrar appointed trustee with a committee consisting of representatives of the central bank and other interests involved to assist the trustee in the administration of the fund. The scheme was intended to be temporary for such period as might be notified under the rules to be framed. We thought that though the scheme appeared drastic, the rehabilitation of weaker societies and the need for writing off bad debts in them preliminary to such rehabilitation was so imperative that any sacrifice on the part of societies—which is only a logical extension of the basic co-operative principle " each for all and all for each "—was worth making. Our original proposal was criticized as being novel, revolutionary, or communistic and evoked protests from co-operators and co-operative institutions. The Madras Provincial Co-operative Conference which considered the proposal was also opposed to it.

In the light of the criticisms, therefore, the majority of us have modified our original proposal of the statutory creation of a pool into one of a voluntary pool. Our present proposal of a voluntary common pool is that the societies in the area of any central bank which can spare without prejudice to their working a part of their reserve funds for the rehabilitation of weaker societies, should be enabled to do so. Such societies should be at liberty to make contributions to the common pool of such part or amount of their existing statutory reserve funds as may be determined by the Registrar without detriment to the sound working and financial strength of the societies making such contribution. The pool consisting of such contributions along with the contributions to be made by the central bank from its bad debt reserve may be utilized under rules to be framed in this behalf for the reconstruction of weak or moribund societies which, in the opinion of the Registrar and the central bank concerned, may be brought under the scheme of reconstruction.

We must make it clear that this pool should be treated as a temporary expedient to meet the needs of an extraordinary situation and to deal with the existing bad or irrecoverable debts in societies. We consider that it may be in operation for three years from the date of the starting of the scheme and in any case, for not more than five years. Nor does it apply to future bad loans in societies.

We should add that such a concession as we contemplate should not be extended to societies whose loss or bad debts are due to fraud or gross mismanagement on the part of those who are responsible for the conduct of their affairs. In order to enable the societies to recover such losses *without liquidating them* the Registrar should be empowered by a suitable amendment of the law to enforce unlimited liability by passing contribution orders against such delinquent members or officers of societies. We suggest that

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suitable legislation may be undertaken to give effect to our proposal of a voluntary pool of reserve funds in the manner suggested by us.

The minority of our colleagues are opposed to the creation even of this voluntary pool. We, too, should have hesitated to suggest this in normal times. We do not think that this sacrifice is unjustified in the circumstances in which many societies find themselves; it is only a form of mutual help on which co-operation is founded. The pool will have also the effect of enhancing the security of depositors of central banks and of stimulating the inflow of fresh deposits.

Objections of the minority to voluntary pool.

144. A minority of the members of the committee are opposed to the proposal of either a compulsory or a voluntary pool of reserve funds in the manner indicated by the majority of our colleagues. Firstly, they consider that it is neither proper nor just that societies which have all along managed their business carefully and economically and have, in consequence, built up reserves should be called upon to contribute to the losses of societies which have not exercised business prudence and care in the management of their affairs. In effect, the proposal would put a premium on bad management and inefficiency and create a precedent the effect of which in the long run will not be conducive to the healthy development of village societies. Secondly, it will undermine the collective responsibility of members in the management of the affairs of societies, and the watchfulness of the large body of members over the actions of the panchayats, however weak it may be at present, will completely disappear. Thirdly, there are difficulties in determining what exactly bad debts are: this would depend upon the agricultural and economic conditions of different areas in the Province. It might be that in the deltaic areas if a man is not able to repay a loan in three or four years it may be considered bad. But in areas like the Ceded districts, the ryot has a good crop only once in three or four years and the loan can be recovered over a long period. Simply because a loan has not been paid for three or four years, it cannot be called "bad." Fourthly, if in a hurry to help members one is to write off debts considered bad, even doubtful debts will, owing to the subconscious reactions which such write-off will bring about, become bad debts in due course.

There is some justification for central banks being made responsible in some measure for losses of societies because primary societies are their members and their interests are closely linked up with their own. In fact, the bad debt reserves of central banks have been built up from the profits earned by their transactions with the constituent societies and have necessarily an integral relation to the bad debts of societies, for the main assets of central

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banks are the loans outstanding in societies. But they see absolutely no justification whatever for making one society responsible for the bad debts or losses of another society in which it had no hand or part. They are, therefore, strongly opposed even to the voluntary pool which the majority of our colleagues have suggested. They are fortified in their opinion by the increasing number of protests which the proposal has evoked from a number of co-operators and co-operative institutions in the Province, though they have not had time to elicit opinion on the specific proposal. They recognize the urgent need for renovating the societies and putting them in working order, but there are less heroic remedies of achieving this end which other proposals made in the report contain.

Fourth category of societies—Liquidation.

145. The last and fourth category of societies, in our scheme of overhaul, comprises those which can in no event be rehabilitated whatever form of help may be given them. The only course left is to liquidate such definitely bad societies.

Problem of disposal of lands.

146. One of the matters of consequence in the matter of rehabilitation of societies is the disposal of lands bought in by societies (and central banks) in the course of execution of awards and decrees obtained against defaulters during the last five or six years. From the figures supplied to us we find that on 30th June 1938 societies had in their possession a large extent of land measuring 13,502 acres (dry 9,248 and wet 4,254 acres) and 2,654 houses purchased for Rs. 15·65 lakhs in lieu of debts amounting to Rs. 16·40 lakhs. (This is exclusive of land and houses in the possession of liquidators valued at Rs. 2·69 lakhs.) Our examination has shown that the management of lands either by societies or central banks has been found to be extremely difficult. Some of these lands are said to be still in the possession of defaulters themselves; and even if they are leased out, difficulties are felt in the recovery of lease amounts. Societies lack the facilities for getting lands in their possession properly leased out or cultivated and their supervision and upkeep, therefore, become costly and unremunerative. Attempts so far made by societies to dispose of properties in their possession have not been successful.

There is, too, a human side to the picture—the hardships, despair, disillusionment which must have accompanied the sale of lands of defaulters in societies. It is only proper that in the scheme of co-operative rehabilitation, the defaulters should be spared the economic and social losses which this has involved and the damage caused may, to some extent, be repaired, if it be possible, to the advantage both of societies and defaulters.

We are aware of the proposal made some time ago for the constitution of a trustee bank for the management of lands. The

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proposal was that the lands in possession of societies were to be transferred to the Provincial Bank for a period of five years, the management of the lands being in the hands of central banks on its behalf and that the lands might be sold at the end of the period when conditions might improve and a rise in land values might be expected. The proposal however did not evoke any enthusiasm.

Scheme of " rent purchase " of lands suggested.

147. We have carefully considered the question and feel that immediate efforts should be made to solve it. Financially it is unsound that societies or banks should allow their funds to be locked up in immovable properties. It has made their assets frozen. It is imperative that some satisfactory arrangement should be designed without further loss of time to dispose of the properties. Towards this end, we suggest that the scheme of " Rent purchase " of lands which, we understand, is successfully tried in Burma, be adopted with such modifications as may be necessary to suit local conditions. The essence of the scheme is that the society enters into an agreement with the defaulter that the lands are to be leased to him on payment of rent which would be equal to the instalment of the loan fixed. If the member pays all the instalments regularly he gets back the land on payment of a nominal sum of one rupee at the end of ten or fifteen years originally agreed upon. If he defaults, he has no claim over the land which belongs to the society and was only leased to him on rent. If the original member is not in a position to take back the land at its present market value on these terms, it is offered to his next-of-kin wherever possible. The scheme serves at once two purposes; on the one hand, it enables societies and banks to get rid of the lands acquired by them; on the other, it restores the lands to the original owners who lost them on account of their default, while at the same time they can free themselves from their obligations to the society. Wherever possible repayments of instalments may be taken in kind instead of in cash and the produce disposed of immediately and sale-proceeds credited towards the instalment of the member. It is true that there is the difficulty that if after making some payments, a member finds it impossible to pay the rest, he would get no benefit whatever for his past payments. It may be stipulated however as the Reserve Bank suggests that if say, one-fourth of the number of total payments is regularly paid, the member should be allowed to get one-fourth of his land. The effect of this arrangement is that though a member will not get back the whole of his land until all the instalments are regularly paid, he will go on acquiring portions of it, and even if he is unable to make further payments after a certain stage, he will get some advantage from the payments made up to that time. In order that this arrangement may not give rise to the argument that the instalments were paid towards the cost of the land, the payment of a

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formal purchase price, however nominal, should be insisted upon at the end of every stage.

Other suggestions for disposal of lands.

148. Suggestions have also been made for the sale of land by auction. We have no objection to it provided the first chance is given to the original owner. It is possible, too, that at least in a few cases, members may make arrangements with land mortgage banks for redeeming the lands taken over by them if they are in a position to offer adequate security required by the banks and if the members have also the necessary repaying capacity. The possibilities of such an arrangement are, however, very limited. Nonetheless, we suggest that wherever possible the possibilities of such transfer should be exploited in full and relief afforded to defaulters.

Agency for provision of long-term money required.

149. The main difficulty in the matter of disposal of lands to original owners or others at their market prices and to recover the amount over a long period is that central banks (whose funds consist mostly of short-term deposits) cannot afford to tie up their money for such a length of time. When difficulties arise in regard to repayment of deposits, financial help will be necessary to enable the banks to keep up their obligations to their creditors. Creditors must be assured of the repayment of their deposits. So, the central banks concerned must provide themselves with some long-term funds either in the form of actual long-term money raised or in the form of assurance of provision for such funds. Most probably much long-term money will not be required in actual cash. What is required is provision of such money by some agency when the need actually arises. There are three agencies which can be thought of in this connexion. One is the Madras Provincial Co-operative Bank, the other is the Central Land Mortgage Bank and the third is the Government. We have been informed that the Central Land Mortgage Bank did not favour the proposal of the Provincial Bank to float debentures for about Rs. 5 lakhs in order to try the scheme of rent purchase in select districts because of an apprehension as to a probable conflict of interests between them; and such action on the part of the Provincial Bank might in the opinion of the Central Land Mortgage Bank prove prejudicial to its interests in the open money market. In the light of this, we do not suggest that the Provincial Bank should undertake to supply central banks with the necessary funds through flotation of debentures to push on the scheme of disposal of lands on a rent-purchase system. If it can otherwise do so, it may do so.

We consider that the Government should place the necessary long-term money at the disposal of central banks. The Governments in other provinces have come to the help of the movement when it found itself in difficulties. And though the

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Government does not owe any legal responsibility to the movement it has a moral one. It is in the larger social interests of the country that the Government should prevent expropriation of rural landholders; and we can think of no other suitable agency for this purpose. We are supported in our recommendation by the resolution of the Thirteenth Conference of the Registrars of Co-operative Societies held in Delhi in December 1939; the Conference has suggested that the Governments of the Provinces should help the credit institutions by providing the required long-term funds either in the form of subsidy or loans or both (or, by enabling the Provincial Co-operative Banks to raise such funds by floating debentures the principal and interest thereof being guaranteed by the Government concerned). We have already expressed our view against the Provincial Bank floating debentures. If, for any reason, the Government are not prepared to provide such accommodation, we recommend that necessary arrangements be made for the Madras Central Land Mortgage Bank lending the necessary money to central banks who will undertake to discharge the loan in a period of twenty years. Suitable legislation may be undertaken, if necessary, to give effect to this scheme.

We are aware of the Reserve Bank's opinion that it may not be practically possible for the land mortgage bank to raise debentures for such a purpose and that it is not desirable that it should risk the success of its ordinary debentures by issuing debentures for this special purpose. Provided the finance of central banks is sound and proper arrangements are made for the recovery of instalments from the original owners or others to them, we see no objection in principle to the Central Land Mortgage Bank lending to central banks as a *temporary* measure, on the exclusive security of the mortgages of the lands of the members to whom the benefits of the rehabilitation scheme are extended. Furthermore, our proposal should be judged with reference to the peculiar circumstances in which societies and banks which have acquired vast extents of property are placed. It is essentially a matter of practical expediency.

Fresh loans to defaulters.

150. One other matter which has a close bearing on our proposals as regards the renovation of societies is that of advancing fresh loans to defaulters after their loans have been segregated and put on a new footing in the manner outlined. To infuse confidence amongst them and to enable them to carry on their agricultural operations and to repay the instalments of debts as refixed, it is necessary to provide them with seasonal credit. To deny credit to them would mean disabling them from repaying the loan. We, therefore, suggest that except in the case of those whose loans have proved definitely bad and will have to be written off, and who for that reason have ceased to be creditworthy, other deserving defaulters should be given fresh

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finance. We are aware that, in some cases, fresh loans are being given to defaulters. There is no uniformity of practice in this matter and we would like the practice to be put on a systematic basis. Towards that end, we suggest that short-term loans may be advanced to defaulters who have, so to say, been reclaimed, for agricultural or other necessary productive purposes, including payment of kist. In so doing, societies should keep in view the following considerations :—

(1) The default is not wilful and is due to reasons beyond the control of the defaulter; and the " nursing " will put the defaulter on his legs;

(2) loans may be advanced on visible securities for a short period, repayable from the next harvest;

(3) the repaying capacity is adequate both for the old loan and the new one to be advanced;

(4) in no case individual maximum borrowing power is exceeded; and

(5) the borrower agrese to repay in kind or sells his crop through the society or through the sale society to which the credit society may be affiliated.

Importance of the scheme of reconstruction urged.

151. We attach considerable importance to our proposals regarding the reconstruction of agricultural credit societies; because the weakest link in the chain is the village society, and unless it is rehabilitated so as to enable it to discharge the functions properly associated with it, the success of the movement cannot be assured. The present structure of the credit movement in this Province is pyramidal with the primary credit society at the base, the central bank at the middle and the Provincial Bank at the apex. Such a structure can be sound and stable only if it is broad-based on solid foundations. The weakness of the structure lies in the weakness of the foundation—the village society. The first attempt in the programme of rehabilitation must be the rejuvenation of village credit societies.

From a brief analysis of the present position, we are convinced that many of the village credit societies are in a state of dormancy while others are not in a sound working order. It is necessary that they should be brought back into gear and put in motion. The existence of moribund societies will be a clog on the progress of the movement or its development in new directions. They have ceased to be effective suppliers of rural credit. If the confidence of the ryot population has to be re-established and societies made useful credit agencies an immediate cleaning up and rehabilitation on the lines indicated is urgently called for. The segregation of old arrears and placing them on a new satisfactory footing will considerably disentangle the movement from the present morass into which it has sunk for reasons already

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explained and will also help central banks and societies to rationalize their future loan or credit policy on sound and economic lines. The time is opportune for the launching of a comprehensive scheme of rehabilitation of agricultural credit co-operatives. We appear to be on the threshold of another boom with its attendant result of an increase in prices. Instead of allowing the members of societies to fritter away their increased income on account of the rise in prices, it will be well if members are taught and persuaded to utilize their resources to discharge their prior liabilities.

We are confident that a vigorous prosecution of the programme of overhaul of societies in the next five years is likely to result in a perceptible improvement in their working and usefulness. We trust that co-operative institutions and the department will collaborate and utilize all their resources towards this end. We would like to add that our proposals constitute a broad outline of a scheme for the tackling of the problem as we see it and can be applied with such modifications in detail as the Registrar and central banks concerned may think fit to suit local conditions.

Future Reorganization—Constitution, Objects and Management.

Remodelling of agricultural credit organizations.

152. We now proceed to consider the future organization and remodelling of agricultural credit co-operatives and the directions in which they can be improved and strengthened so as to enable them to be of greater service to the agricultural classes for whose benefit they are intended and to utilize fully the opportunities which will present themselves under our proposals.

Inadequacy of present village co-operative credit organizations for agricultural credit requirements.

153. We expect to see both an extensive and intensive development of co-operative rural credit organizations so that they might serve the credit needs of the ryots to a much larger extent than has been the case hitherto. The number of village credit societies (unlimited and limited) on 30th June 1939 was 10,520. According to the Census Report of 1931, the total number of inhabited towns and villages in this Province (excluding Madras States) was 51,826 and of these, villages with a population of 5,000 and below were about 51,000. It is, therefore, clear that there is still a vast portion of the Province which has not yet been covered by co-operative credit organizations. Taking the districts individually, we find from the available statistics that the spread of the movement is not even in all the districts. For instance, on 30th June 1939 the percentage of villagers affected by the movement to the total number of villages was about 60 in Coimbatore, Chingleput and Madura districts, while in Chittoor, Nellore and Ramnad districts it was below 25.

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The following comparative statement relating both to the number of societies and number of members and other relevant particulars by provinces for 1935–36 (compiled by the Department of Commercial Intelligence and Statistics, India) furnishes an idea of the ground covered by the movement in the Provinces concerned :—

Province.	Population (in millions).	Total number of societies.	Total number of members of primary societies.	Number of members of primary societies per 1,000 inhabitants.	Number of societies per 100,000 inhabitants.
(1)	(2)	(3)	(4)	(5)	(6)
Madras	49·1	13,284	887,688	18·1	27·1
Bombay	19·1	4,847	537,464	28·1	25·4
Bengal	51·9	23,512	796,088	15·3	45·3
Bihar and Orissa ..	39·7	8,928	262,187	6·6	22·5
United Provinces.	50·0	7,421	206,775	4·1	14·8
Punjab	25·2	22,498	777,398	30·8	89·3
Central Provinces and Berar.	16·4	3,820	73,169	4·5	23·3

The borrowings by ryots for cultivation expenses were estimated by the Madras Provincial Banking Enquiry Committee to exceed Rs. 60 crores annually. The loans now advanced by agricultural credit societies in a year are about Rs. 150 lakhs. The economic surveys conducted in connexion with Mr. Sathianathan's enquiry into the indebtedness of the Province disclosed that about 6 per cent of the capital requirements of the ryots was met by co-operative societies. Owing to the operations of debt conciliation boards and the Madras Agriculturists' Relief Act, there has been a shrinkage in the capital advanced by money-lenders and others and a steady demand is noticeable for the organization of fresh societies in villages which have not yet had their benefit. In fact, while the number of new societies started in villages from 1st March 1937 to 31st December 1937 was 186, the number registered during the period from 1st March 1938 to 31st December 1938 (during which the Agriculturists' Relief Act has been in force) was 418. Correspondingly, the amount of loans issued by banks to village credit and sale societies which was Rs. 87·35 lakhs during the former period rose to Rs. 139·21 lakhs during the latter period. Till about a year or two ago attention was given to the policy of rectification and consolidation, and not to expansion. In our opinion, the time has now come when a vital change in policy is called for.

A five, seven or ten-year plan of expansion of village credit co-operatives and their reorganization on a wider basis.

154. In consideration of all the facts set forth above, we feel that there is need for a comprehensive programme of expansion of village credit co-operatives so as to bring every village within the area of operation of a society. We suggest that this programme of expansion should be coupled with the

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reorganization of village societies on the basis of a five, seven or ten-year plan. The most convenient and effective way of covering the whole Province with societies will be the amalgamation of such existing small societies as are unable to work individually and can be conveniently grouped into larger units. The loan transactions of a good many societies have shown a progressive decline largely because of deterioration in agricultural economy, and to a smaller extent because of the birth of new organizations such as land mortgage banks for dispensing long-term credit, sale societies for providing credit for movement and marketing of crops, and societies for special crops such as sugarcane growers' societies, fruit growers' societies. Owing to this redistribution of the financial activities of village credit societies among different types of co-operative organizations and the consequent narrowing down of their business operations and owing further to a reduction in lending rates agreeably to the changed agricultural and economic conditions in the country, many small societies have been working at a loss. As we have already pointed out, many of them are moribund. It is necessary in our opinion that small societies should be reorganized on a wider basis by grouping them together into one society. It is difficult for us to lay down hard and fast rules and to state what should be the manageable area of operations of such reorganized societies for much will depend upon local conditions. But a radius of three to five miles according to convenience and facilities, as far as possible, for easy accessibility and mutual contact among villagers might be the normal feature of reorganization. It is not our intention that the existing societies which have a large membership and business should not carry on their work independently, i.e., without amalgamation with other societies. The unit may be a village or a group of villages according to circumstances but what we envisage is that within a stated period, five, seven or ten years as the case may be, all the villages in the Province should be brought under the scheme of expansion. Agricultural credit societies reorganized and expanded on these lines will be able to work at a margin, which will give them sufficient income to carry on their operations on a business basis by employing the requisite (paid) staff and to build up reserves. These larger societies are, in our opinion, the natural consequence of the decentralization of co-operative activities and departmentalization of credit, sale and production to which we have just referred. We also feel that there is a distinct advantage in extending the jurisdiction of one village society to more than one village because it may be possible to check or overcome the factious tendencies which are an unfortunate feature of village life to-day. It is not that four or five villages in the neighbourhood do not share the same partisanship but that the intensity of bitterness which may prevail as between two warring factions in a single village may not manifest itself in the same degree when the field of action is extended over a wider area. Further, such an enlargement of their area will offer societies a wider scope for the selection of proper men to carry on

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their business efficiently; it will conduce to better audit or supervision as it will be easier for any agency to supervise one centrally organized body than a number of small, scattered societies.

We have considered the possible effects of the amalgamation and grouping of societies on the existing structure of primary agricultural credit societies, and suggest that this may be done by making a classification of the members into bad and good. The bad members will have to be eliminated and a liquidator appointed to recover their dues. The retained (good) members will go into the new society with their assets and liabilities.

One of our members (Sri R. Suryanarayana Rao) wishes to emphasize that the two basic principles of mutual knowledge and mutual trust so vital to the promotion of village corporate life must not be lost sight of in the reorganization of agricultural credit societies. Provided these two principles are adhered to, such societies can serve one village or a group of villages. He gets support for his view from the Officer-in-charge, Agricultural Credit Department of the Reserve Bank of India. The latter considers that one society for one village should be the general rule and that there should be no undue hurry in covering the whole Province with societies all at once. He thinks that if societies will take up activities other than the supply of agricultural credit, their profits would increase and would be sufficient to maintain a paid staff. He is doubtful if the extension of the area of a society over a group of villages will eradicate the evil of village factions. On the other hand, there is greater likelihood of inter-village jealousy coming in the way of harmonious working than if the jurisdiction of the society is confined to one village; the grouping together of several villages would not, in his opinion, ease but would create more factions. He is insistent on the one village scheme not merely for business reasons. Co-operative organizations are a training ground for villagers in business methods, and such training, he thinks, can be had only in a small unit. Further, it accords with the tradition that the village in India has been the unit of corporate activity. Cohesion, identity of interests and corporate life would emphasize the importance of the one village scheme. An exception to the one village scheme may, however, be permitted where another village is so near or has so close an affinity that it really forms part of the main village. Sri Suryanarayana Rao is in agreement with Mr. Ambegaokar.

While we appreciate the sentiments expressed, we do not think that the proposed organization of village societies on a wider basis will do such violence to the principle of proximity and corporate life as has been apprehended. In most districts, villages are situated close to one another and there is among them an intimate identity of agricultural and economic interests; social bonds too, throw them together. An area of three to five miles, which we have suggested, does not, for these reasons, offend the

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principle of proximity. Further, we cannot permit ourselves to be solely guided by sentimental or theoretical considerations. We have allowed them full play for over a generation and we find we are not any the better for it. Village co-operatives are business organizations and for reasons which we have tried to explain, many of them have not been paying their way; they are uneconomic units. We are convinced of the need for a reorganization of societies on a wider basis on the lines proposed.

Hasty expansion not contemplated.

155. We hasten to add that when we recommend a five-year, seven-year or ten-year plan, it is not our intention that there should be a hasty expansion of the movement in the countryside and that old mistakes should be repeated (though, as some members remind us, societies which were hastily organized have been working well in many places owing to their better agricultural and economic environment, while those started after an elaborate process of instruction in the principles of co-operation to prospective members have failed owing to their less prosperous agricultural conditions). We do not suggest that the ground should not be prepared before societies are started. Supervisors or Inspectors employed by central banks and the administrative staff of the Co-operative Department should carry on propaganda in villages where it is proposed to start societies according to plan. During their first one or two visits they should take stock of the social, agricultural and economic conditions of the village or group of villages selected, assemble the ryots and explain to them the principles of co-operation, its objects and benefits; they should point out that co-operation requires sustained effort and that it is a plant of slow growth but that every ryot can learn to co-operate with his neighbour and that all that is needed is to change their outlook on life; they should tell the villagers of the success of co-operation in other parts of the Province and in other countries and communities and the benefits it can confer on them; they should impress on them that co-operation is not based upon the wealth of members but upon their honesty, straightforwardness and punctuality in redeeming their obligations. They should advise them to think about these things and adjourn the meeting. The Inspectors or supervisors should have an opportunity to form an opinion of the suitability of the village or villages selected for the society. They should then wait for a response from the villagers themselves. It may be the response may come in the form of a petition for starting a society in the village or villages selected. Even otherwise they should make another visit; the ryots assembled should be questioned upon the results of their previous talk and the need for a society should be ascertained. If the villagers cannot make up their mind, a third visit may be paid. In this manner, it is possible to prepare the ground for the formation of village societies within the period contemplated in our plan.

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The working of village panchayats and the propaganda done through training classes held during the last four years for panchayatdars and members of village societies and the periodical conferences for the promotion of schemes of rural uplift have already broken the ground. The conditions created by the debt relief legislation would compel the villagers in an increasing measure to look to co-operative institutions for a solution of their present difficulties for obtaining credit.

Employment of additional staff recommended.

156. For the successful prosecution of the scheme of expansion, more staff is necessary. We recommend that the Government should strengthen the present staff of inspectors wherever needed. We are sure that central banks will not grudge to increase their staff, because any increase in the number of societies in their respective areas would add to the volume of their business and profits and enable them to maintain an increased staff.

Need for increased membership of societies.

157. We consider that simultaneously with the enlargement of the field of activities of village credit co-operatives, there should be an intensive drive for enlarging their membership and bringing every eligible family of the right type of character in their area of operations within their ambit. As far as possible, there should be scope in village credit societies for all sections of the community each of which has definite economic and social needs. This intensive development is necessary so that the money-lender's credit may be replaced by co-operative and therefore controlled credit within as short a period as possible. This should be possible of achievement in view of the recommendation which we have made below for the enlargement of the functions of agricultural credit societies. Even if a ryot has no need for credit, he may take advantage of other facilities provided by the society, namely, purchase of domestic or agricultural requirements or sale of produce or pursuit of subsidiary occupations. The variety of services which the reorganized society would provide to its members should be sufficient attraction for a large body of villagers joining the societies.

" Compulsory co-operation "—a contradiction in terms.

158. A suggestion has been made by two of our colleagues (Sri K. Bhashyam and Sri A. Karunakara Menon) that the *voluntary* basis of rural co-operative credit organization should be altered and that there should be statutory compulsion to make all eligible villagers members of societies, or at any rate, to bring the representatives of all families in the village into the movement. They think that is the only practicable way of promoting their economic interests. They feel that propaganda and education are slow processes and will not accelerate the pace of co-operative progress in the countryside. They consider that a sacrifice of a co-operative principle is worth making for the purpose of helping

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the ryots even against themselves. Another reason urged is that the richer agricultural classes do not interest themselves in co-operative effort either because they can raise credit elsewhere or because they are not in need of it. The upper middle class may not find it profitable to mix themselves up with the lower or the lowest middle classes. A co-operative society composed mainly of the lower middle classes or the class below it cannot command credit or do much help to them or others. They, therefore, consider it necessary that co-operation must be forced on the ryots and the richer classes must be made to come to the help of the poor by lending them their credit. If direct compulsion is not considered possible, they urge some form of indirect compulsion to achieve the purpose they have in view.

We are afraid that the proposal misses the essential point that co-operative societies are voluntary associations and only those who choose to join them can participate in the benefits conferred by them or share the responsibility which such membership involves. This essential principle of co-operative organization has been unquestioningly accepted and practised all along. Compulsory co-operation is a contradiction in terms, and we do not hesitate to rule it out as being impracticable. If societies are reorganized on a wider basis to serve a variety of interests, we see no reason why we cannot go nearer the end which our two colleagues have in view. Co-operation is a voluntary effort: it should grow from among the people out of their own free will: it is not and cannot be the result of State compulsion or regimentation.

We are glad to notice that our decision against compulsion has subsequently been supported by the Thirteenth Conference of Registrars of Co-operative Societies held at New Delhi in December 1939; they say that persons should not be compelled to join a co-operative society; nor should the decision of such society be binding on non-members except in cases involving the provision of some utility services which at least two-thirds majority of those concerned desire.

Limitations of Co-operative finance.

159. In this connexion, we must state that at present a large body of villagers are outside the movement and with all our schemes of expansion and reorganization it is hardly possible to bring all of them into the ambit of agricultural co-operative credit organizations. If societies are reorganized on a sound basis, their membership should be more select and insistence on honesty and character would limit membership. Co-operation or co-operative finance has its own limitations. It is a form of business organization, not a form of charity. Business considerations would, therefore, rule out the possibility of all villages being admitted into the society for purposes of credit; it cannot accept bad risks with due regard to its own interests and those of its creditors. An appeal to

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the wealthy section of the agricultural community should induce them to become as much the members of the society as the lower middle or poorer classes requiring credit and to make their contribution to village uplift.

Functions of agricultural credit co-operatives to be enlarged—Multiple-purpose societies.

160. In the next place, we consider that the intensive expansion we advocate must comprehend the enlarging of the activities of village credit co-operatives by making them discharge all the functions which are contemplated by the model by-laws of these societies. These include the supply of manure, seed, improved implements and other necessary equipment required for agriculture, joint purchase on indent system and sale of produce: they may also undertake the supply of electrical and other mechanical power on a collective basis and even farming on a co-operative basis and such other allied functions as may be decided upon by the committees of societies. These objects are so conceived as to achieve the ideal of co-operative societies and help the village in the triple programme of "better farming, better business and better living." If societies expand their activities in the first instance even up to the limits laid down in their present by-laws, we believe that the full-fledged multiple-purpose societies will be the next step in evolution. Multiple-purpose societies are not new things. The germ of them is there in our existing by-laws.*

Promotion of subsidiary industries.

161. In working the scheme of multiple-purpose societies we suggest that village societies should be utilized to a greater extent in the organization and promotion, under proper direction and suitable safeguards, of subsidiary or cottage industries; for, we believe that the success of co-operative organizations will depend, to a great extent, upon improving the income and purchasing power of the rural population, and this can be achieved mainly through the formulation and carrying out of suitable measures for the improvement of agriculture and development of subsidiary industries, such as bee-keeping, dairying, poultry-keeping, fruit-growing, etc. Where, however, there are handicrafts or village industries which require special technique, finance or marketing arrangements, separate organizations are preferable and should be organized.

Introduction of improved methods of agriculture and seed.

162. It is not enough that societies should provide the rural population with cheap credit alone: it should be their aim as

* We find also that the Thirteenth Conference of Registrars in India (December 1939) has adopted the following resolution:—

"Provinces should experiment with multiple-purpose societies to ascertain more clearly the conditions under which they are likely to thrive and the form which they should take with special reference to their area of operation, liability and purposes."

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well to see that they provide them with the means of repayment which they can hope to do by making agriculture pay better or by creating for them means of supplemental income. We suggest that this should be kept prominently in view in the reorganization of agricultural credit societies and they should be enabled to introduce improved and intensive methods of cultivation and empowered to acquire areas for common seed-beds to multiply seeds in the village so as to ensure uniformity of crops and ultimately to facilitate consolidation of holdings.

Fixation of individual limits for unproductive but unavoidable expenditure.

163. Alongside of this provision for improved agriculture and of subsidiary industries, societies should undertake measures for the elimination of economic waste among members which is so important a feature of rural life. We are aware that the debt relief measures undertaken by the Government have had the effect of cutting down the social expenditure of agricultural classes and of checking reckless borrowing. We feel that advantage should be taken by village credit organizations of the ground so prepared in order to prevent members from borrowing for unproductive purposes; they must be given the powers necessary to control the expenditure of their members on marriage and death ceremonies and such other unproductive but unavoidable purposes by fixing a limit for each member on each occasion.

Encouragement of loans and recoveries in kind.

164. Another suggestion we make to prevent misapplication of loans taken by members is that as far as possible loans should be given to members in kind and recovered in kind after the harvest. It is so often the case that if an agriculturist is entrusted with cash, he either spends it extravagantly or does not get his money's worth. Apart from the fall in agricultural prices a big share of what he gets goes to the middleman. Village societies should as far as possible sell the produce through a neighbouring sale society. The grant and recovery of loans in kind will not only prevent misapplication of money, but will also ultimately prove to be the first step in the progress of co-operative marketing.

One of our members (Sri T. A. Ramalingam Chettiyar is not in favour of this arrangement. He envisages two difficulties. If, for instance, seed is given to a member and the loan is paid in the form of seed to the society after the harvest, he thinks that the society will stand to lose if between the time of giving the loan and its repayment there is a difference in prices. Secondly, depositors must be paid in cash and difficulties would arise if payment in kind is accepted. He is, therefore, against the introduction of this system in every society. In his opinion experiments may be useful in backward areas, where there are considerable dealings in grain.

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We are aware of the difficulties involved in transactions of this kind; they may add to the complication of accounts and to the opportunities for loss and fraud. It may be that the difficulty which the borrower experiences in converting his produce into money would equally be experienced by societies and that village credit societies have neither the necessary facilities nor the ability to pay for proper staff to take charge of the produce, sell it and credit the sale-proceeds towards the loan. What we, however, suggest is a simple and elementary kind of business in which the societies reorganized on a wider basis can make a beginning. Our idea is not that societies should hold up and store produce but arrange the sale, credit to the member's loan the price realized or return to him any excess over the instalment due and thus incidentally get a better price for him and a control over the sale-proceeds which he may possibly misapply. We may note that we are supported in our recommendation by the Thirteenth Conference of Registrars of Co-operative Societies (December 1939) which has recorded that loans should be advanced in the form of seed, fertilizers and implements where practicable after a survey of requirements and that the possibility of encouraging and extending repayment in kind should be explored especially in economically backward areas.

Joint purchase on indent system.

In suggesting these comprehensive functions for village credit co-operatives, we should not be misunderstood as recommending a combination of incompatible objects. We are aware that village societies should have simple constitutions and simple systems of accounting and that they are managed by simple people. We have not suggested that societies should undertake regular trading in speculative enterprises which, if they result in loss would spell disaster to all their members. We see no harm, however, in village credit societies doing, for instance, some supply work on an indent system. Members require cloths for festivals; they are of a standardized style and pattern. It is quite simple for societies to collect indents from members, purchase them in bulk and effect economies. Again, members require artificial fertilizers; they require them at about the same time. It should be possible for societies to obtain them in bulk on an indent basis.

Adoption of limited liability as the basis of reorganized societies majority view.

165. We have discussed at some considerable length the question of the nature of the liability on which the societies as reorganized on a wider basis for groups of villages with enlarged functions should be based. Unlimited liability has been one of the basic principles of rural co-operative credit organization in India (which followed closely the Raiffeisen system). The principle was first embodied in the Co-operative Credit Societies Act of 1904 and repeated in the Co-operative Societies Act II of 1912

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(India) and in the provincial enactments which replaced the All-India Act in some of the provinces. There is still a large body of opinion which insists upon it as the basic principle of village co-operative credit organization. The majority of us consider that unlimited liability has outlived its utility. Firstly, even when the principle as embodied in Act X of 1904 (India) was under discussion in the Council of the Governor-General of India, it encountered opposition and the late Mr. Gokhale stated: "it (unlimited liability) is a principle which our raiyats in many parts of rural India can scarcely be able to understand . . . Insistence on such a principle would keep away from the new societies those very classes whose help and co-operation would be indispensable." This is as true to-day as it was when those words were uttered. The Government of India, however, pointed out that while unlimited liability might be most suitable for rural credit societies *as a general rule*, cases were conceivable in which it might be desirable to allow a limitation of liability to members of particular rural societies and that under the Act the Local Government might *relax* the rule of unlimited liability. Secondly, in recent years there has been a large number of liquidations of societies, and the enforcement of unlimited liability to make up the deficit in assets of societies to pay off their creditors has caused hardship to the members, some of whom are either non-borrowers or non-defaulters and caused apprehension in the minds of the rural classes and brought the movement into general disrepute. Thirdly, we believe that unlimited liability has kept away the solvent or better class of agriculturists whose sympathies and material and moral help, if secured, would contribute to the efficient management of societies. Fourthly, unlimited liability does not imply that persons having joined the society cannot alienate their properties as long as they continue to be members thereof. There are instances where members have actually alienated properties fearing the liquidation of the society and an eventual enforcement of unlimited liability against them. We are supported in our view by the statistical information furnished to us on this subject. In the recent past, we find that the percentage of recoveries to the total amount of contribution orders enforcing unlimited liability was very small; in effect it has not been as helpful as it is held to be for the good working of co-operatives. So long as unlimited liability does not bar the alienation of property of members during the period of their membership, its practical utility is open to doubt. Nor can it be enforced against members so long as the society retains its corporate character; it is only a contributory liability. The legal characteristics of unlimited liability itself have undergone a radical change. At one time unlimited liability was enforced by creditors against any member of a living society. The MacLagan Committee, however, pointed out that it was merely intended to be contributory liability by which the ultimate deficit could be secured by a series of levies *per capita* on members, direct action

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by any proceedings against individual members being forbidden. But the Committee was not clear about the stage at which it could be enforced. This was, however, made clear in 1931 by a Full Bench decision of the Patna High Court which stated that it was merely a contributory liability and could not be enforced against the society as a corporate body. Section 4 of the Madras Co-operative Societies Act (Act VI of 1932) embodies this decision. Even the enforcement of this contributory liability can, as we have observed, be successfully evaded or frustrated by the cleverer or the dishonest among the members of the society. Fifthly, it is efficient management rather than unlimited liability that induces confidence among financing banks and depositors. The written replies we have received reinforce the view that a change in the form of liability will not interfere with the inflow of deposits into the movement and that the confidence of depositors depends, to some extent, on the belief that the Government, through inspection, audit and other forms of statutory control, is behind the movement and to a larger extent on the good management of societies. Sixthly, unlimited liability is based on the fundamental idea of the members of a village society possessing mutual knowledge of each other's affairs and exercising some control over their fellow-members in matters of their borrowing and punctual repayment of loans. But these assumptions are not the realities of village life to-day. Seventhly, the weight of evidence we have received on this question from co-operators and co-operative institutions is definitely in favour of a change from the unlimited to limited liability. In fact, we may state here that the societies which were organized in this Presidency in the first one or two years after the introduction of the movement were based on limited liability and it was only subsequently that the change to unlimited liability was effected. Eighthly, though *personal* credit on an unlimited liability basis has been all along considered to be the chief characteristic of unlimited liability credit societies, in actual practice we find that loans have been gradually made to rest more and more on *material* caution in the shape of security of immovable property and that in recent years the proportion of *mortgage* loans in village societies has shown a steady rise: while on 30th June 1925, 33 per cent of loans outstanding against members of all agricultural societies had been advanced on the joint personal security of one or more members and 14 on the mortgage of immovable property, on 30th June 1939, 44 per cent of loans outstanding was on personal security and 56 on mortgage of immovable property and 5 on pledge of movables—produce, standing crops, etc. Taking a long view of the matter, we are convinced that unlimited liability has not been as helpful to the progress of co-operative credit organizations as one would expect; nor has it ensured mutual watchfulness and care among members in the conduct of affairs of societies. We believe that if unlimited liability is replaced by limited liability—if necessary by guarantee

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—societies will secure the services of the well-to-do agriculturists who have kept aloof. On a careful consideration of all aspects of the matter, the majority of us recommend that the liability of a village credit society should normally be limited but if, in the opinion of the Registrar, having regard to local opinion and other circumstances, unlimited liability is more suitable for any society, its liability may be unlimited.

Objections of the minority—Unlimited liability to be the rule and limited liability the exception.

166. Some of the members of the committee are strongly opposed to the recommendation made by the majority. First, the question of the suitability of the form of liability as a basis of rural credit societies has been reviewed from time to time by important committees and commissions of enquiry and authoritative opinion has been practically in favour of unlimited liability. Secondly, unlimited liability is an essentially co-operative principle, which is designed to create a sense of collective responsibility and mutual watchfulness among members of village credit societies. Its moral effect is too great to be ignored. There is much more danger with the principle of limited liability, because one man may get the whole control into his hands and would then only be made responsible for the amount of his share. If the liability is unlimited, on the other hand, it is to the interest of every member to see that the society is properly managed. Unlimited liability is hedged in by adequate safeguards—careful selection of members, grant of loans on personal or mortgage security, provision of share capital and reserves; these safeguards constitute a complete protection. Thirdly, though unlimited liability has long been in force, its rigour is softened by the rules issued by the department in regard to its enforcement. In fact, very little is recovered by the enforcement of unlimited liability. From the figures supplied to them showing the number, amount and classification of contribution orders passed for a period of three years from 1935–36 to 1937–38, they find that the amount of contribution orders passed is not high in relation to the amounts written off in liquidated societies or liabilities to be paid off. The largest category of contribution orders passed relates to those below Rs. 250. Contributions for higher amounts are levied with due regard to the circumstances of the case, i.e., in the case of individuals who are responsible for losses caused through deliberate mismanagement, fraud or *binami* transactions. Fourthly, they believe that protection to creditors is afforded through the adoption of this basic principle of unlimited liability, and a complete change all at once will shake their confidence and affect the flow of money into the movement.

They are further supported in their view by the finding of the Indian Central Banking Enquiry Committee that unlimited liability was of great practical value in raising and dispensing

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co-operative credit instead of being a danger or a snare. Fifthly, they are afraid that by giving up the principle of unlimited liability men of small means tenant-farmers, agricultural labourers and others of similar economic status will be left out. Personal credit to such men is out of the question unless the society is situated sufficiently near to them to know them and to form an opinion as to their ability and the productive value of their undertakings; the only hope for such men lies in the retention of unlimited liability. Material security they have hardly any and if insisted upon, they cannot offer it. It is then only richer men who can get loans on tangible or mortgage security. In particular, societies which are exclusively composed of scheduled classes will experience difficulties in raising credit from financing banks and their working will be adversely affected. Sixthly, the replacement of unlimited liability by limited liability will destroy mutual trust and mutual knowledge and the basic principle of co-operation—" Each for all and all for each." The sense of collective responsibility and of corporate feeling will get weakened and will give place to a feeling of each for himself. Rural co-operation will cease to be a force making for unity in village life. It will undermine the care and prudence with which loans to members are expected to be recommended by panchayats of societies with the result that central banks will have to examine all individual loans with a greater degree of care than has been the case under the system of unlimited liability; in other words, this would inevitably lead to a centralization of co-operative finance which, in their opinion, is not calculated to promote the progress of co-operative rural credit on right lines. Village co-operatives will cease to be institutions locally managed and administered by local men tied up in a system of mutual obligations and mutual supervision, and will transform themselves into agencies of a centralized banking system, which they do not desire. Seventhly, if solvent or well-to-do men in villages have been scared away and have kept aloof, they believe that it is due to bad management of societies rather than to unlimited liability. In view of the weight of opinion of the majority, however they do not wish to prevent experimentation in this matter. The Thirteenth Conference of the Registrars of Co-operative Societies in India (December 1939) have stated that agricultural credit societies (other than multiple-purpose societies which are the subject of another resolution) should ordinarily continue to have unlimited liability but scope should be given for experiments with such societies with limited liablity.

The minority also take support from the opinion of the Officer-in-charge; Agricultural Credit Department of the Reserve Bank of India, whose evidence before the committee is extracted below :—

> " We feel that unlimited liability is a matter of necessity and not a matter of choice. If the funds are to be

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attracted at cheap rates there seems to be no escape from this form of liability. The present credit society has *inter alia* foundered on extravagant borrowing and unproductive use of the money borrowed. The removal of unlimited liability will take away whatever restraint there existed on the committee and the members and the mutual supervision which is the rock bed of a rural credit society will be replaced by mutual collusion which will create difficulties more serious than those with which the co-operative movement is faced at present.

"There may be good substantial people who keep off on account of unlimited liability. Generally speaking, however, in the past substantial people have not kept away on account of unlimited liability. If there is any scare now it is on account of the trouble into which societies have got owing to mismanagement and disregarding the safeguards of unlimited liability provided in the by-laws. As the working of societies improves this fear will wear off and better class of people will join them. The safeguards referred to above *inter alia* consist in careful selection of members, advancing of loans for productive purposes and that after careful scrutiny and supervising use of such loans, etc., etc. The change of liability may bring in more members but is likely to put a premium on the tendency to ignore the above principles and thus do more harm than good."

Limitation of the term of office of office-bearers and panchayatdars not favoured.

167. It has been suggested that in order to prevent monopoly of office, abuse of power, or fraud, a limit should be imposed on the term of office of the president, secretary and panchayatdars. We are aware that such restrictions are imposed in some of the British Indian Provinces and in Mysore. On consideration of all aspects of the matter, we are of opinion that the working of societies in this Province does not call for the irksome restraints of the kind proposed. It is opposed to the democratic constitution and management of co-operative organizations. We prefer to trust to the collective good sense of the members of societies and the spread of education among the agricultural community as adequate checks upon the vagaries of office-bearers and panchayatdars of societies. If an office-bearer is really bad, it is to their common interest that members should remove him. If he is really influential, though he may be formally removed from his office, he will still continue to be a power for mischief from behind the scenes.

Need for appointment of paid clerical staff for big societies.

168. The village credit societies, when reorganized in accordance with our proposals, will operate over a large area

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and on an intensive basis. As their area, membership and functions get extended, their business activities will increase, and it will be difficult for a purely honorary agency to attend to the writing up of accounts, maintenance of books and registers and to carry on the routine work. With an increase in business, the need for men trained in accounts will be felt.

We, therefore, suggest that paid men with the required training in co-operative accounts should be appointed for each of these enlarged societies. The increased business activity will result in creating the necessary funds with which to maintain the staff.

Group clerks not recommended.

169. We are not in favour of the appointment of group clerks for village co-operatives. The system, wherever it was tried in the past, led to abuse and however necessary, particularly in backward tracts, it can at best be regarded only as a temporary expedient. The success of an arrangement like this generally depends on the condition of the societies to be grouped for the purpose, their proximity to one another, sufficiency of their resources for contribution towards the maintenance of trained group clerks, honesty of the clerks appointed and proper control and supervision over them. The existence of these conditions cannot always be postulated. It is feared that the adoption of this system may result in a weakening of the sense of responsibility of office-bearers of societies, manipulation of accounts or misappropriations, or dissipation of the energies of clerks in going about from place to place. On the whole then the system does not appear good. We do not, therefore, recommend its adoption. Wherever possible local men with an elementary knowledge of accounts may be appointed clerks on a small remuneration.

Payment of honorarium and clerical remuneration to office-bearers.

170. The question of the basis of honorarium and clerical remuneration to office-beares of societies for the writing up or maintenance of accounts or for specific services rendered has been raised. As it is, office-bearers are paid for clerical work done by them as secretaries or as clerks and the payment is debited to the general funds of societies and is independent of profits. A second payment known as bonus or honorarium is also made to them for specific services rendered by them to societies and this payment is made on a percentage appropriation (20 to 25 per cent) from the annual net profits earned by societies.

The present mode of payment for clerical services is defective. This payment is fixed in the by-laws at a rate not exceeding 12 annas per Rs. 100 of loans outstanding against members on the last date of the previous co-operative year. The result is that office-bearers are led to manipulate accounts and keep the loans

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outstanding at as high a level as possible on the last day of the year either by way of non-collection of dues from members or non-remittance of collections effected before the close of the year. Further, in computing the outstanding loans even bad or doubtful debts are taken into account, though no interest is actually realized on them. Or again, loans disbursed towards the closing months of the year are also taken into account for purposes of total outstanding loans, though they do not earn much interest. Moreover, office-bearers dislike appointing paid staff, even when there is a need for it as, by so doing, they deny themselves the benefit of remuneration. We have gone through this matter carefully and recommend that remuneration for clerical work should be paid for on the basis of the average working capital for the year (*minus* reserve fund)—the average working capital for the year being worked on a monthly basis. So far as secretarial work is concerned, we consider that payment for it should depend upon the efforts put forth for the collection of members' dues and that it should be paid for in each individual case with reference to the amount of collections made, subject to a maximum percentage of the net profits earned by societies (say 20 or 25 per cent).

Financial or credit policy.

Policy of "Full finance" and prohibition of outside borrowing by members.

171. We now proceed to discuss the financial or credit policy of agricultural credit societies. In view of our recommendations that rural credit societies should be so organized as to cater, as far as possible, for all the economic needs of members, it is necessary that they should arrange to finance all legitimate needs of members as prescribed in the by-laws. If such an arrangement is made by societies, members ought to be prohibited from borrowing from outside sources. Such of the members as violate this rule should be expelled from societies and all their dues recovered at once. The most serious weakness of co-operative rural credit organization—as critics often point out—has been that it failed to regulate credit or to insist on loans being utilized for only productive purposes and to finance their members for *all* their legitimate needs. We consider that it is necessary that the future lending by societies to members should be carefully regulated—a matter with which we will deal in detail later. Here we are concerned with the question of "full finance." Members of societies are driven to money-lenders because societies fail to satisfy all their financial requirements. This should be effectively prevented in the interests of members and societies alike. Borrowing from more than one source is fraught with serious disadvantages. If the society cannot give the member an advance for an unforeseen or urgent purpose, he goes to the money-lender for accommodation and as usually happens, the greater the

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urgency of the borrower, the higher the rate of interest charged on the loan. The borrower generally repays the loan carrying an onerous rate in preference to the loan to his society which carries a lower rate. He becomes a defaulter and the society in its turn cannot repay the bank on the due date. This is a vicious circle; this should be broken. It is essential that the member's loyalties should not get divided in this manner.

The nature and extent of restraint which may be placed upon members of village credit co-operatives in regard to contraction of future loans have engaged our attention. Suggestions have been made for a virtual sterilization of credit by prohibiting outside borrowing by members altogether and penalizing it. This is attempted to be achieved by a legislative provision prohibiting a member who is indebted to a society from encumbering or disposing of the standing crop or produce grown on his land without the previous consent of the society, any alienation made without such consent of the society being void; a member who alienates or encumbers the standing crop or produce should be made punishable with imprisonment or fine.

Another suggestion is that it should be made more difficult for the member to sell or otherwise transfer his land or immovable properties to a party other than his co-operative society. In other words, mortgage of land should be permitted only to co-operative societies.

A third suggestion is to impose a restraint on alienation by agriculturists on their lands on the lines of the Punjab Land Alienation Act, to which we have already referred.

We are not in favour of any form of stringent restriction in the manner suggested as measures of this nature are more than likely to defeat their object and to prove prejudicial to the growth of the economic stature of the agriculturists. It would equally upset the existing rural economy. We have already suggested other methods of dealing with the matter by regulating and controlling money-lending; we have also recommended (in this chapter) the creation of an agricultural charge in favour of societies. Further, our recommendation that if rural credit societies finance all the legitimate needs of members, they must be prevented from borrowing outside on pain of expulsion and summary recovery of their dues should, we think, be adequate for the requirements of the case.

" Voluntary compulsion " as opposed to " compulsory co-operation."

172. This co-operative interdiction will introduce into the working of societies the principle of " voluntary compulsion " as opposed to " compulsory co-operation " which, as we have said, is a contradiction in terms. Voluntary compulsion may appear paradoxical but, what it implies is only a system of rules and

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contracts (by-laws) " rigidly executed but drawn up and enforced by members themselves within the ordinary law of contract." If a member is found eligible for credit and the village co-operative of which he is a member can provide him with it for legitimate or productive purposes recognized by its by-laws up to the limit fixed in the rules and regulations by which he along with other members is bound, then he should not be allowed to seek the satisfaction of his credit needs elsewhere either because he requires credit for a purpose not recognized by the by-laws or because he considers the limit inadequate for his requirements. He can do so only on pain of being expelled from the society and of his accounts being closed and dues recovered in full.

Relaxation of limit of individual maximum credit—Central banks to be empowered.

173. There may be persons who require loans over and above the individual limit of credit fixed in the by-laws of societies; if such credit is genuinely for productive or legitimate purposes, societies should be able to satisfy their needs; otherwise they may be compelled to seek outside sources of credit. It is not in the interests of societies or members that this should be allowed to occur. We, therefore, recommend, that it should be open to central banks to which the societies are affiliated, to relax the maximum credit limit in individual cases provided they are satisfied with the security offered by members and the necessary amendments permitting this relaxation are made in the by-laws of societies and banks.

Grant of short-term and medium-term loans by agricultural credit societies (and central banks).

174. We have already suggested that the agency for dispensing long-term mortgage credit should be separate from village credit societies and agricultural credit should be dispensed by primary credit societies. Rural credit (apart from long-term mortgage credit) is generally of two varieties; short-term seasonal credit required for the pursuit of agricultural or cultivation operations, which is repaid out of the next harvest and medium-term credit required for such purposes as minor improvements of land, purchase of cattle, implements or carts, which is repaid out of the margin of income over some number of years. In the scheme of ordinary credit structure, we consider that the Madras Provincial Co-operative Bank, central banks and primary credit societies must confine their operations to short-term and medium-term loans from the money raised through deposits of suitable duration.

Long-term loans for redemption of prior debts by village credit societies discouraged.

175. Loans for the redemption of prior debts are outside the scope of the Provincial or central banks and primary societies : and no loans should be given by them for this purpose. The economic

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implications underlying long-term loans are that they can be advanced only from long-term funds and repaid through a process of amortization only in small driblets during a long period of years from the savings in interest charges effected by discharge of prior debts carrying a high rate of interest or from the enhanced income resulting from investment of additional capital obtained from the loans. It is needless for us at this stage to labour the point. Co-operative lending has all along been intended to be mostly productive and entirely short term. The intention was made clear when the Co-operative Credit Societies Act X of 1904 was passed. But various circumstances conspired against its realization. Many ryots were involved heavily in debts before they came into the co-operative movement, and it was found that only by redeeming them from the burden of prior debt could they be set going on the co-operative path. Though this was a correct view, the mistake lay in having utilized the village co-operative society to liquidate such a debt. A separate agency should have been started for such long-term credit but this was not done. The result was that a good deal of accumulated debt was passed on to village societies and converted into co-operative debt. The evolution of co-operative banking structure in the Province in recent years has been in the direction of separating the institutions that dispense short-term and medium-term loans from the institutions that dispense long-term loans. We however notice a lingering desire on the part of some co-operators in favour of village credit societies supplying the needs for long-term capital for discharge of prior debts. We are definitely opposed to this and recommend that village societies should no longer concern themselves with the issue of long-term loans for redemption of prior debts. Nor are we in favour, as we have already stated, of long-term mortgage loans being disbursed by the Central Land Mortgage Bank through village credit societies in the place of primary land mortgage banks. This appears simple and attractive but we are afraid of the resulting financial confusion which it is necessary to avoid.

Period of short-term loans.

176. As short-term credit is intended primarily for financing agricultural operations, it should be generally repaid in a period not exceeding twelve months, and in exceptional cases eighteen months according to the nature of the crop for raising which the loan has been obtained. In other words, short-term or working credit should be the first charge on the harvest and repaid after the sale of the crop.

Rationale of medium-term loans and period.

177. The agriculturist needs credit not only for the running expenses of his land but also for other productive purposes. Medium-term loans are, as already stated, required for the purpose of buying animals, costly implements, carts or effecting minor repairs to lands or houses, etc. The vital difference

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and the member, for this unsatisfied demand, is driven to approach the money-lender again which it is our earnest endeavour to avoid under our proposals.

Period of medium-term loans—three to five years ordinarily and seven years in exceptional cases.

178. In view therefore of these considerations we recommend that while short-term loans should be insisted upon to be repaid out of the proceeds of the member's next harvest, the medium-term loan should be repaid, ordinarily in three to five years and in exceptional cases, the period, may be extended up to seven years. In no case should it extend beyond this limit.

We shall discuss the question of resources from which to advance the medium-term loans while dealing with central banks.

Loans for domestic necessity or consumption purposes to be granted with care.

179. Loans for consumption purposes are different for those for productive agricultural operations. The extreme view is that it is no part of the function of the agricultural credit machinery to provide cheap loans for current consumption. It is true that as a rule such credit is detrimental because in the past the all-in purpose of domestic necessity was composed largely of unproductive items with the result that loans could not be repaid from the borrower's agricultural income within the stipulated time. A complete ban on such loans is neither possible nor desirable. A complete failure of crops, exhaustion of all his available resources for agricultural operations and the consequent need for feeding himself and his family up to the next harvest or depression in prices immediately after harvest are some of the instances when members require loans. Loans for domestic expenditure or consumption purposes, while they cannot be eschewed altogether, require however stricter scrutiny than has been the case in the past.

Encouragement of loans against produce.

180. Loans against standing crops and produce should be developed through village societies; particularly small loans for the smaller ryots should be encouraged. We notice that sale societies have been advancing loans against produce in an increasing measure during the last few years and this has deprived village societies of some of their business. We do not see why the bulk of loans against produce should not be given by rural credit organizations. We are aware that some good village credit societies are at present doing this business. What we would like to emphasize is that while sale societies should be strengthened so as to enable them to concentrate more and more on the marketing of produce than on mere loaning against produce, primary credit societies, when

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strengthened and reorganized should provide credit to their members not only for raising crops but also for storing the produce in the interval between harvest and sale in a favourable market.

Provision of storage facilities and Government help.

More largely than now, arrangements should be made for storing the produce not necessarily in modern warehouse or godowns but in the time-honoured homely receptacles of the village. In order then to encourage societies to develop their " produce loan " business we suggest to Government the desirability of extending financial assistance to the deserving among them in the construction of indigenous type of godown popularly known as " gades " or " kudurus " in villages on a larger scale for storage and preservation of produce.

Grant of loans against standing crops.

181. We recommend that loans against standing crops should be given only by agricultural credit societies, and not by sale societies, some of which, we understand, were in the past permitted to advance loans against standing crops as an experimental measure. Owing to the extent of their area of operations and their lack of facilities for close supervision, sale societies are not competent to do this business satisfactorily. Village credit societies are the most suitable agency for this purpose.

Creation of first charge on produce.

182. In view of our suggestion that borrowing by members should be restricted only to societies, it is necessary that the interests of societies should be safeguarded and that some definite legal provision should be made to secure prompt payments out of the gross produce at the harvest. We therefore recommend that societies should be given the first charge on the produce of members' holdings raised with the help of loans advanced or other requirements supplied for seasonal productive operations, subject, of course, to the over-riding claims of the State in respect of land revenue, up to the extent of the loan advanced. If a member disposes of the produce to any other agency, he should be required to pay out of the proceeds first the dues to the society and a breach of this should be made an offence. This will enable societies to hold their position against other creditors, particularly village money-lenders, who being on the spot, are naturally more vigilant and more prompt in seizing the produce of agriculturists for their dues, thus nullifying the priority for co-operative loans now provided for in section 21 of the Madras Co-operative Societies Act. This will prevent money-lenders from usurping the functions of agricultural credit co-operatives in the sphere of seasonal and crop finance; this will impose a salutary restraint on borrowing from outside sources and will bring about a partial sterilization of credit from private agencies (which two of our colleagues desire so much to enforce by compulsory methods),

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besides ensuring prompt repayment of loans to societies and lessening the chances of default. We have already suggested that land mortgage banks should have a second charge upon the produce raised on the members' holdings.

Issue of loans against jewels.

183. One other direction in which village societies can be of help to their members is to grant loans on the pledge of jewels. We have no reliable statistical data about the number of *Marwari* money-lenders who have settled in important village centres and have been carrying on money-lending operations. We are however informed that they have gradually penetrated into the countryside and are lending on a large scale mostly against jewels and other valuable household articles. They usually lend for short periods at high rates of interest; the more urgent the need, the higher is the rate of interest charged. It has, therefore, been pointedly brought to our notice that agricultural credit co-operatives should make a beginning to help the villagers with money against gold or silver. We see no objection to experiments being tried in this direction by efficient and well managed village credit societies with the previous permission of the Registrar, provided they have the same facilities for valuation and safe custody of jewels, as the urban banks (which have been permitted to deal with the business) possess.

Need for quick supply of credit to members.

184. It has long been recognized that members of agricultural credit societies should be provided with capital for their agricultural operations or other needs with as much promptitude as possible. This recognition has however not been translated into practice. If loans are not given to members quickly there is always a danger that they may be driven to the money-lender. The village money-lender has in this respect an advantage as his clients can get accommodation immediately they need it: in some cases, they are allowed a sort of drawing account with him. That is not the case with the village society. It is hardly in a position to give loans to its members immediately the need for them arises because it lends out all its available capital at one time and when there is a further need or an emergency, the member cannot get a loan. It is true that some delay is inevitable owing to the observance of prescribed formalities before a loan is granted to societies. The defect, however, in the present arrangement is that members take loans once a year and spend the money as soon as it is received, and when other needs arise, they go to the money-lender.

The system of forecast loans—their comparative neglect in the past.

185. One of the remedial measures that has long been advocated but rarely practised is the system of forecast loans. The system has been fully dealt with in the departmental manual

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and it is unnecessary for us to describe it in any detail. The essence of it is that the society prepares a forecast of the short-term requirements of its members with a reasonable degree of accuracy, and gets the loan application sanctioned by the central bank to which it is affiliated before the commencement of the season so that it may be in a position to draw upon the account sanctioned by the bank and the loans advanced to its members with the least delay. Once a careful estimate is made it will not be difficult for the executive of the society to prepare similar estimates year after year.

The non-observance of the forecast system is due to more than one reason, and all the parties concerned—societies, unions and central banks—are responsible for it in a greater or less degree. There has not been adequate propaganda among societies by the supervising staff of unions in the advantages of the system. The initial difficulties involved in the preparation of the forecast of requirements of members coupled with a lack of enthusiasm on the part of supervisors have deterred them from popularizing the system. The office-bearers and panchayatdars have not evinced interest in it partly because of their ignorance of the benefits of the arrangement, partly because of their own defaults and apathy and partly because of lack of instruction in the preparation of forecasts. Central banks, too, have not evinced sufficient interest or compelled the preparation of applications on a forecast basis. In recent years the economic crisis, the general bad condition of societies and the prevalence of overdues have diverted non-official efforts more towards rectification than to the formulation or execution of plans designed to improve the financial arrangements in societies. In some places past experience seems to have shown that the system of forecast loans was not worked successfully; the forecasts of members' requirements were pitched rather high and therefore resulted in unproductive use of money; or, again, the loans obtained on the forecast basis were given to members who were not included in the original applications.

Popularization of the forecast system.

186. Whatever might have been the reasons for its comparative neglect in the past we consider that sustained efforts should be made in the immediate future in this direction. In view of our recommendation that all the legitimate needs of members should be met by societies to prevent them from borrowing elsewhere, it is necessary that they should be accommodated with credit *promptly* to retain their loyalty. We have already recommended that village co-operatives should confine themselves to short-term and medium-term loans. It will be easy, then, for them to prepare the requirements of members under these two heads in two separate sets of applications. So far as their requirements for short-term agricultural needs are concerned, they should be prepared only on a forecast basis.

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We, therefore, recommend the introduction of the forecast system in societies on a far larger and wider scale than has been the case in the past. We consider that central banks should insist that all applications for loans for cultivation expenses should be made only on the forecast system and that they should not entertain applications for cultivation expenses otherwise than on a forecast basis except for very strong reasons. We suggest that Deputy Registrars and representatives of central banks should meet sufficiently in advance of the cultivation season, say, about six weeks ahead and draw up plans for attending to the work promptly by allotting supervisors to different areas in the district, supplementing the staff of inspectors, wherever necessary, by the staff from the Co-operative and Agriculture departments. What is necessary is that all the agencies concerned should carry on intensive educational propaganda among societies so that ultimately they themselves can be depended upon to prepare the forecast applications without direction or dictation from unions or central banks.

In the preparation of forecast loans careful attention should be paid by supervising authorities to the fixation of the normal credits of members with reference to their requirements, total income, expenditure, repaying capacity and other relevant factors. The limit for short-term credit for cultivation expenses which should be obtained only through the forecast application should be well within the gross income of the members. If medium-term credit is required in addition, the amount sanctioned should be such that the total to be repaid in any year (short-term plus medium-term instalments) would be within this limit. The assessment should be made by the panchayats of societies subject to the approval of the general body in accordance with well-defined principles to be prescribed by the financing bank and the Registrar with reference to local conditions. No loan beyond the limit fixed should be advanced without the previous approval of the financing agency.

While the benefits of the forecast system on the lines indicated above are clear, we wish to sound a note of caution in regard to the extension of that system to loans other than those advanced on the controlled credit system or on the pledge of produce.

Introduction of (cultivation) cash-credits in societies.

187. Another method suggested to reduce delays is to secure for village credit societies cash-credits with central banks to enable them to draw money and disburse it to their members as and when required. This can be properly worked only in societies which are in close proximity to central banks or urban banks through which proper arrangements may be made for quick transmission of funds. To the extent to which it is possible however the system of cash-credits or credits on current accounts may be popularized; select A and B class societies may be given this facility, so that other societies may emulate them and try so to conduct their work as to deserve this privilege. When once the

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system of forecast loans and normal credits get themselves established as an integral feature of the working of rural co-operatives, the logical extension of the system will be to introduce cash-credits. The individual cash-credits should be fixed after a careful scrutiny of the agricultural needs of members, and the maximum of the society's cash credit should be based upon the total needs of members, their own funds if any and other relevant factors. It is important in the early stages to select members who can be trusted to use the money productively and benefit themselves by the facilities offered through cash credits.

The question of transfer of funds will present difficulties but they can be got over through suitable arrangements. In many districts urban banks have been acting as transmitting agencies on behalf of central banks for remittance of moneys. Some of the central banks have also opened branches in select urban areas. (There are also branches of commercial banks in important centres of districts where central banks may not have their own branches.) It should be possible for central banks to facilitate cash-credit operations in societies by making some suitable financial arrangements among their branches, urban banks and important branches of commercial banks. If, as suggested, village co-operatives are amalgamated and their area of operations enlarged so as to permit paid staff being employed, there may be no difficulty for well conducted societies to make a beginning in this direction.

To postpone the experiment is, we are afraid, to deny to members of at least well-to-do societies education in the economic use of money which the system is intended to foster. In order to prevent misuse of the facilities offered, we suggest that the following principles should as a rule govern the grant of cash credits :—

(1) Cash credits may be given only to select A and B class societies after a careful examination of needs of members up to a fixed percentage of their maximum borrowing power.

(2) Cash credits may be designated " cultivation cash credits " and earmarked for short period agricultural purposes to enable societies to allow members to operate on the accounts as and when necessary according to the requirements of the season.

(3) The maximum normal credit fixed for each member may be split up and cash credit permitted up to the limit required for purposes referred to in item (2) above.

(4) Cash-credit limits of panchayatdars may be subject to the sanction of the central bank concerned.

(5) Continuing mortgage bonds may be obtained from members for cash credits sanctioned.

(6) Cash-credit transactions may be reviewed every year and may be subject to annual renewal. The members

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should be required to deposit against their accounts their savings or any other income at their convenience. Any misuse of facilities should entail their discontinuance.

Technically, there will be no overdues from societies or members who will be given cash credits, but in order to prevent cash credits from getting converted into fixed loans, it is necessary to see that the accounts are properly operated upon.

The Reserve Bank has suggested that in order to train members to have all their dealings through the village co-operatives and to draw money as and when needed through overdraft or cash credit, a lower rate of interest may be charged on advances given to members by way of cash credits than on fixed loans. We commend this suggestion to central banks and societies for consideration.

Prompt disposal of loan application of central banks by the Provincial Bank.

188. One of the reasons given us for the delay in the sanction of loans to central banks by the Provincial Bank and by the central banks to their constituent societies is that the by-laws of the Madras Provincial Co-operative Bank require the Executive Committee to obtain from the Registrar full information regarding the central banks which apply for loans before sanctioning them. We learn that this provision was made in the early stages of the development of the Provincial Bank and district central banks in the Province and has continued to exist to the present day. The practice, in our opinion, requires a change. The Provincial Bank should be constantly aware of the standing reputation, financial condition and management of banks from the annual audit reports, departmental half-yearly notes of inspection, monthly progress reports of central banks, and the periodical notes of inspection made by the President or any of the directors of the Provincial Bank itself besides the information furnished in the loan applications of central banks. And it should be possible for the Provincial Bank ordinarily to dispose of applications on the material available with it from these sources. It cannot be that the present practice is intended to enable the Registrar to examine whether the societies proposed to be financed from the Provincial Bank's loan are sound and deserve the loans, because no such control is exercised by the Registrar in respect of the large number of loans which are issued by central banks from their own funds. While it should be open to the Provincial Bank to consult the Registrar where it wants additional information, it should not be compelled to ask for it in every case.

Central banks, at present, forward along with their applications for loans to the Provincial Bank detailed statements of loans required by their constituent societies, and the latter are scrutinized by the Provincial Bank. Some of us wonder whether such

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detailed scrutiny by the Provincial Bank is called for and whether central banks should be kept in such tight leading strings. In effect the rule reduces central banks to a position of tutelage and treats them as branches of the Provincial Bank. Some of us consider that the present practice of the Provincial Bank requires modification.

Control of unproductive borrowing and creation of public opinion against social extravagance.

189. We lay emphasis on the need for village credit co-operatives checking unproductive borrowing by their members. Most village co-operatives have hardly done anything to curtail extravagant expenditure by members on social ceremonies or to prevent over-borrowing during the boom or to see to the *productive* use of the credit dispensed by them.

That there was over-financing during the boom is supported by the relative size of loans of individual members during the boom and the years following the depression. While during the period from 1919–20 to 1924–25, the average loan *disbursed* ranged from Rs. 32 to Rs. 38, it varied from Rs. 19 to Rs. 21 during the period from 1934–35 to 1937–38. This contraction was due, no doubt mainly to depression, but it is also the fact that members were content with much less borrowing then than before. We ocnsider that village credit co-operatives should confine themselves to the grant of the bulk of loans for productive purposes; the granting of credits for unproductive purposes should be strictly controlled.

We are aware that in the existing social conditions of the agricultural community it is difficult to avoid expenditure on marriage and death ceremonies but societies should be able to educate their members in the restricted use of credit for unproductive purposes. We suggest that apart from societies fixing credit limits for such purposes, as we have recommended, a new machinery should be created in towns as well as villages in the form of public opinion aided by personal persuasion to control and regulate economies of members in respect of social functions.

Co-operative credit essentially controlled credit.

190. Co-operative credit has always been distinguished from money-lenders' credit. The money-lender is not concerned with the use to which the amount of his loan is put by his client, while the theory of co-operative credit requires that the need for the loan should be scrutinized, that the application of it for the purpose for which it is taken should be supervised and controlled and that the recovery of it in due time should be insisted upon. Co-operative credit is essentially controlled credit in so far as societies really "influence borrowers towards the true use of credit." The position has been well put thus :—

> "The important point about a co-operative credit society is that loans are only granted to a member whose moral

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standing, honesty and solvency have been scrutinized by all the other members of the group before his admission, and only for specific objects approved by the administrative board as being of service to the borrower and in keeping with his means and the security he could offer; lastly, as a rule, a guarantee by one or more members is required. A close watch is kept on the use made of the sums lent and the society has to be satisfied that they are being applied for purposes intended and are really improving the farmer's position and not simply increasing his indebtedness."

We have only to add that in order to ensure such control, the by-laws of societies provide that loans should be advanced only for useful and productive purposes, that they should be recalled at once if they have been misapplied and that, in addition to the general supervision of societies, a special supervision of individual borrowers through the system of personal sureties is necessary.

Main features of the scheme of controlled credit introduced in select districts.

191. Though it is axiomatic that co-operatives dispense controlled credit, in actual practice, however, it is found that most of the principles which make the co-operative credit controlled are either not observed or enforced. Owing, evidently, to an appreciation of this position and of the need for ensuring productive and judicious use of credit by the members of village co-operatives, we find that the department has in recent years made attempts to introduce in select areas in some of the districts of the Province what has come to be popularly known as the scheme of controlled credit. The essence of this scheme is that loans sanctioned should be disbursed to members in instalments as the need for the purpose for which the loan is given arises and the loan given should be recovered out of the income obtained by the application of the loan, i.e., if a loan for cultivation expenses is sanctioned it should be disbursed in instalments as the cultivation operations progress and the loan should be collected from the sale-proceeds of the crop raised. For this purpose the member is asked to execute an agreement to sell the produce either through the society or the sale society to which the village co-operative is affiliated. The dues of the member to the village co-operative or a land bank are deducted by the sale society from the sale-proceeds of the produce and the balance is remitted by it to the member. Through a co-ordination of the work of agricultural credit societies, central banks, sale societies and land mortgage banks, credit is linked up with marketing and every stage of the application of the loan, i.e., from the stage of cultivation to the stage of sale of produce is supervised and controlled. We notice that efforts have been made for some years past to popularize the scheme particularly in districts where commercial crops are grown. It is now in force in select areas in Salem, Coimbatore,

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Tinnevelly, Tanjore and a few other districts and we are informed that the results achieved so far encourage an extension of the scheme.

Criticism of the scheme of controlled credit.

192. We feel reluctant to express a definite opinion on the feasibility of the extension of the scheme on a large scale throughout the Province in view of the insufficient data before us. We may, however, briefly state the criticism advanced against the scheme. Firstly, the need for co-ordinating the activities of several co-operative organizations is recognized but the co-ordination attempted is considered cumbrous and perhaps impracticable. Secondly, it is claimed that controlled credit educates the borrower into a realization that credit from a co-operative source is not a gift and should be applied to the productive purpose for which it is granted. Under this scheme, however, it is too highly centralized to have this educative value. The local village society is valued because of its intrinsic advantages. It is in close contact with the ryot; it understands his actual needs, it can supply his needs promptly if it has the means required; it can, if it works well, direct and control the proper utilization of credits given. The centralized administration of the scheme of controlled credit will be an impediment to the building of an efficient and autonomous village credit system. In the transacting of agricultural credit " it would prove a vain endeavour to administer, through centralization the work of canalising of credits, and of following up, in all particulars, the utilization of loans." Thirdly, the centralized administration and supervision is so expensive that the cost to the financing bank is greater than its interest from the loans sanctioned under the system of controlled credit. Fourthly, the co-operative principle of mutual supervision is rejected; members and panchayatdars are not made to feel the responsibility for their transactions, and societies, instead of being live organic wholes with policies and activities of their own, become agents of the central bank, channels for the distribution of money which is allocated not by themselves but by the financing institutions, mere cashiers rather than autonomous bankers. It is true that the ordinary member of a village co-operative is ignorant and illiterate, but the point is whether it is wise to keep men in leading strings. It may mean less risk, but it may bar the way to the real progress of rural co-operative credit. If village co-operatives are not ripe for the purpose, " it is essential that training and education should intervene. But such training is not achieved by the overhead institutions taking over the co-operatives' duties which would lead to their complete estrangement from their work."

Scheme to be tried in suitable areas.

193. We suggest that the scheme may be given a fair trial in suitable localities. It can be modified, if necessary, in the light

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of further experience and the criticisms to which we have just alluded.

Rationale of interest rates—Need for reasonable rates.

194. Co-operatives in general and village co-operatives in particular have reduced the rates of interest on loans outstanding against members as well as on new loans advanced to them during the last few years, in view of the hard times. It is only right then that the Government should have exempted co-operative societies from the purview of legislative enactments relating to conciliation or scaling down of rural debts. We, however, notice some hesitancy on the part of some banks and societies to effect a reasonable reduction in their lending rates. Since the war, the return on capital invested in agriculture is very low. The ryot does not fix the prices of his produce : they are imposed on him, so that his profits are limited and he often suffers a loss; and consequently the rate of interest on loans advanced to him should be lower than on those given to merchants. We hasten to add that it is not our intention that the rates should be dangerously low or that the attempt to make credit cheap should be carried " to the extent of being suicidal."

Rates of interest.

195. We feel that while co-operative credit societies and central banks should make every endeavour to keep down the interest on loans advanced to their members at as low a level as possible, they must so regulate their business as to maintain a sufficient margin between their borrowing and lending rates so as to ensure adequate revenue for the efficient conduct of their indoor and outdoor operations and maintain unimpaired their financial stability.

Measures for avoidance of accumulation of overdues.

196. We have considered the question of the measures needed for avoiding the accumulation of overdues and for ensuring the better working of village credit co-operatives in the future. We have already indicated the broad lines of credit policy which societies should adopt with particular reference to the following aspects :—

(*a*) supply of credit for all legitimate needs of members;

(*b*) prohibition of outside borrowing;

(*c*) relaxation of individual maximum credit in necessary cases;

(*d*) grant of loans only for short-term or medium-term purposes;

(*e*) control of unproductive borrowing and of loans for domestic or social expenditure;

(*f*) adoption of forecast system and controlled credit;

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(*g*) Introduction of (cultivation) cash credits:
(*h*) creation of first charge on the produce of members' holdings.

We believe that the new orientation of the credit policy of societies on these lines will help them to place their loan business on a rational footing and will go a long way to prevent the accumulation of overdues in the future.

Strict enforcement of by-laws for recovery of overdues.

In addition, we suggest the following measures :—

(1) The by-laws of village credit societies relating to the recovery of overdue loans should be strictly enforced. If a member defaults in the payment of the instalment due and if such default continues for three months, his loan account must be closed unless an extension for payment is given and steps must be taken for the recovery of the amount. But the by-law is not always observed. The practical difficulty seems to be that on account of local or personal considerations, panchayatdars hesitate to take prompt action and allow loans to become overdue; not infrequently they are themselves defaulters and naturally fight shy of taking coercive action against other defaulters. The supervising authorities should educate members and panchayatdars and insist upon the rigorous enforcement of by-laws in this regard.

Coercive action against defaulters by central banks in the event of failure to take action by societies.

(2) It is true that in some cases, where panchayatdars fail to proceed against defaulters or mismanage affairs of societies, the panchayats are superseded under the by-laws of societies and agents are appointed to carry on their business. We do not think that such an arrangement is for the ultimate good of the societies or banks. Instead of allowing things to reach a stage when supersession becomes necessary, the supervising authorities or the central bank concerned should take measures even at the earliest manifestation of neglect or indifference on the part of panchayats. We have, therefore, suggested in dealing with central banks that, in the event of failure on the part of panchayats to take quick action for the recovery of overdue debts, financing banks should step in and set the coercive machinery in motion. Towards this end we have also recommended that central banks should be empowered by an amendment of the Co-operative Societies Act to proceed against individual members of primary societies.

Adjustment of recoveries to cyclical trend of production.

(3) One of the contributory causes to the increase of overdues in the past was the defective system of recovery in societies. Agricultural and economic conditions differ from

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place to place and change over a period of years. Even in normal periods there is a weather cycle operating. It is stated and we think, with justification that in a period of three years crops usually fail in one year in parts of the Province and in the Ceded Districts they fail generally in two out of every three years. Any system of rural credit which does not take these factors into account is bound to cause hardship to the people concerned. The village co-operative must adopt a technique of recovery suited to the actual economic and crop conditions of the area in which it operates. Where crops fail periodically, repayments should be adjusted to the cyclical trend of production. Recovery based on a sliding scale should be devised at least in those tracts where the agricultural factors referred to operate in a large degree. Very little attention appears to have been paid to this aspect in the recovery of loans. A uniform method of recovery all over the Province irrespective of the widely varying conditions in which co-operatives work is most ill-suited to any system of agricultural credit. Judicious adjustment of recovery in the manner suggested may entail corresponding adjustments in the business methods of central credit institutions but if the system is to work well, such adjustments are necessary and are worth making.

Need for proper extension of period of repayments.

(4) The by-laws of village credit co-operatives provide for grant of extension of the period of repayment of loans to members for satisfactory reasons. It is necessary that this by-law should be faithfully carried out. When a member is definitely unable to pay the instalments of his loan on the due date in spite of his best intentions on account of failure of monsoon or of crops, bad harvests or fall in prices or any unforeseen calamity, it is hardly reasonable or advisable that the society should treat the loan as overdue or keep silent or proceed against him. We suggest that extensions should be allowed in all deserving cases, particularly when there is a general crop failure and the member is economically disabled from repaying the loan. It is not a general or wholesale extension that we suggest. A close examination of each individual case must be made before an extension is made.

The Reserve Bank suggests that the total amount of loans extended owing to crop failure and any other overdues must be shown separately in all accounts, balance sheets and statistics whether of societies, central banks or the apex bank. The practice in this Province is that overdues are shown separately in departmental statistics administration and audit reports of all co-operative institutions.

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We agree with the Reserve Bank's suggestion that overdues and extended loans should be shown separately in the balance-sheets of societies also and recommend that the form of balance-sheets may be revised so as to provide for this.

Penalty for breach of provision regarding the first charge on produce.

(5) We have already suggested the creation of a first charge on the produce of members' holdings by a suitable amendment of the Co-operative Societies Act. The English Agricultural Credits Act, 1928, treats the breach of this provision as an offence and provides for penal servitude up to three years, if, with intent to defraud, a member fails to comply with the provision and disposes of his produce. The Reserve Bank of India has commended the Burma Co-operative Committee's suggestion to provide for three months' imprisonment if a member disposes of his produce without repaying his loan and stated that to prevent abuse of this provision, no prosecution under it should be started without the previous sanction of the Registrar. It is true that a penal provision would have considerable psychological effect and would ensure more prompt and regular payments. But we think the requirements of the case may for the present be met by rigidly enforcing the penal provisions in section 53 of the Madras Co-operative Societies Act, under which an offender is punishable with fine not exceeding Rs. 200.

Influence of credit policy on overdues—Need for sound regulation of loan business.

(6) We would like to point out the influence of the credit policy of central banks and societies on overdues. In the past a period of a plethora of funds and too liberal lending was followed up by a period of increasing overdues. We are inclined to believe that a rapid increase in overdues immediately following the crash in agricultural prices is not a little due to the very liberal loaning policy adopted by many banks in their anxiety to rid themselves of their surpluses.

It is very instructive to read in this connexion the following observations made by the Registrar in his administration report for the year 1926–27 :—

" Deposits from local boards and municipalities increased by 21 per cent during the year against an increase of 50 per cent during the previous year. A considerable portion of the surpluses in the Apex bank and in most of the district banks has been absorbed during the year. The agitation which produced this result has given greater prominence to this question of surplus than to the problem of arrears and the central banks which participated seemed more concerned with immediate results than with sound investments. . .

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"The existence of a large surplus at the beginning of the year in the financing banks led to an agitation for expansion and in the course of this it was urged in several districts that the borrowing power of existing societies should be increased while more societies should be freely organized. The Madras Central Urban Bank offered a special rebate on loans to central banks if they took more than three lakhs before a certain date to be utilized in this expansion. The necessity for caution in registering hastily organized societies and the delay caused by referring back incomplete organization records for further information led to some criticism of departmental officers. The enhancement of maximum borrowing power had in view of the duty laid on the Registrar by Statutory Rule VIII-B to fix borrowing limits and of a tendency to press for enhancement more with a view to absorb the bank's cash than to provide for loans within the easy repayment capacity of the ryots in moderate years compelled the department to adopt a conservative attitude. It has been urged that loans up to one-fourth of the total assets would be a safe limit while the department will not go beyond one-eighth. Such loans might have an adequate property backing to enable the bank to recover it by selling up the ryot but if the loan is for ten years at 10 per cent he must repay in the first year 10 per cent for principal and 10 per cent for interest, that is, in all 5 per cent on the value of the total property. Considering that cultivated land only pays about five per cent on its capital cost, that his property quoted in the property statement includes many other items than cultivable land, that he has to maintain himself and his family, that the property statement is frequently exaggerated, it will be patent that to fix a maximum borrowing power at one-fourth of the total of the property statement is to ensure very heavy arrears.

"The Apex bank and many of the central banks made strenuous efforts to have the surpluses employed in the movement. The Apex bank offered a rebate of 1½ per cent on interest for a loan of Rs. 3 lakhs taken from it during the year and some of the central banks took advantage of this concession."

An examination of the position during the last 14 years bears out the remarks made by the Registrar. The statement attached shows how both banks and societies have not followed a careful loan policy in the past. Taking the year 1925–26 as the basic year, we find that there was a rapid increase in the amount of deposits in central banks during the subsequent seven years, from 1925–26 to 1932–33, the percentages varying from 124 to 174 compared

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with the basic year. The loans issued by the central banks as well as by societies showed a very rapid rise during the years 1926–27 to 1929–30,* the percentage in the banks varying from 142 to 165 and in the case of societies, from 141 to 154, while during the same period, the percentage rise in the number of societies and membership varied from 112 to 129 and 112 to 130 respectively. The figures show that so far as loans are concerned there was a rapid increase which was out of proportion to the increase either in the number of societies or membership. The plethora of funds of which the central banks were in possession proved too tempting to resist their making the most profitable use of them and passing on the money to societies and the latter in their turn to their members.

Statement showing position regarding deposits and lendings of Central Banks and the number, membership, loan transactions of agricultural societies and the Index numbers for them for a period of fourteen years with 1925–26 as the last year.

Years.	Central Banks.				Agricultural Societies other than Land Mortgage Banks.					
	Deposits outstanding at the end of year.	Index number.	Loans issued.	Index number.	Number of societies.	Index number.	Membership.	Index number.	Loans issued.	Index number.
	RS. IN LAKHS.		RS. IN LAKHS.						RS. IN LAKHS.	
1925–26 ..	282·08	100	180·88	100	10,143	100	5,47,065	100	166·37	100
1926–27 ..	349·24	124	257·51	142	11,390	112	6,10,280	112	234·34	141
1927–28 ..	397·56	141	263·56	146	12,426	123	6,61,980	121	252·63	152
1928–29 ..	419·51	149	262·92	145	12,888	127	6,87,296	126	245·26	147
1929–30 ..	434·06	154	297·70	165	13,044	129	7,09,062	130	256·06	154
1930–31 ..	441·08	156	203·89	113	12,788	126	7,09,062	130	158·46	95
1931–32 ..	452·09	160	141·60	78	12,436	123	6,70,178	123	91·23	55
1932–33 ..	491·37	174	162·50	90	11,396	118	6,21,594	114	81·56	49
1933–34 ..	444·07	157	120·59	67	11,662	115	5,86,301	107	77·38	47
1934–35 ..	385·94	137	138·26	76	11,553	114	5,68,115	104	104·16	63
1935–36 ..	376·55	133	180·45	100	11,402	112	5,62,889	103	116·81	70
1936–37 ..	377·61	134	180·52	100	10,975	108	5,48,343	100	162·89	98
1937–38 ..	374·22	133	252·91	140	11,014	109	5,72,166	105	177·33	107
1938–39 ..	383·72	136	356·94	197	11,392	112	6,26,741	115	248·36	149

This policy of liberality in the loan business of central banks and societies should have been partly dictated by the prevailing boom. We agree with the Reserve Bank in thinking that it is difficult for credit institutions to maintain a sense of proportion during a boom. For one thing, to the extent to which the cost of production and of

* We may add that central banks, in view of the increasing flow of deposits till 1932–33 might have continued their policy unchecked even beyond 1929–30 but for the depression; they could not profitably seek investment in societies and began to agitate, to get rid of surpluses, for permission to grant loans direct to individuals against merchandise or industrial products, agricultural produce or gold. But the Government refused such permission.

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living goes up, the ryot will be legitimately in need of greater credit and credit must, therefore, be expanded in such periods. But the difficulty is that the ryot does not borrow wisely and the sense of confidence in his earning power which prosperity brings only leads him on to borrow more recklessly than ever and to live beyond his means. For another, the financing institutions also tend to lose sight of the danger as the ryot is for the time being able to repay the advances. Not only money-lenders but also central banks made reckless advances during the last boom period. Our own examination of the matter, as disclosed by the statement, supports the Reserve Bank's criticism that to a large extent the difficulties in which the banks find themselves at present are the result of excessive credits, very often for extravagant purposes, which were then granted. The mistake they made was to look upon the higher prices as having come to stay and to have increased their lendings on the basis of these prices.

It is hardly necessary for us to say that central banks should regulate not only their own loaning policy but also that of their constituent societies. The object of the co-operative financing banks is not so much as to thrust money on societies and make profit but to promote the economic interests of the ultimate borrowers. It has been very rightly said that "credit is measured by the measure of actual needs;" and central banks should see that their affiliated societies follow this wise maxim as regards grant of loans to their members, that no loans are given for extravagant purposes and that members are prevented from ruinous expenditure. It is imperative that financing banks should carefully regulate the inflow of deposits and investment of their funds in societies and avoid the temptation of a too rapid expansion of their business when they have a plethora of funds. Such artificial extension of business, as occurred during the period 1926–27 to 1929–30 would only result in unproductive borrowing by members of agricultural credit societies and eventually in their inability to repay and accumulation of overdues.

Need for tapping local deposits and promotion of thrift and savings.

(7) We find that the deposits of both members and non-members in agricultural credit co-operatives represent hardly 5 per cent of their total working capital. It is clear, then, that societies have hardly done anything to encourage savings or to tap local resources. They depend for their finance mostly upon central banks. An obvious weakness in credit societies is the comparative absence of depositors and we agree with Sir M. L. Darling that "all pressure requires some counter-poise, and in the village

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society the pressure to borrow, which may otherwise be irresistible, requires the counter-poise of the depositor who is likely to keep a stricter watch on the business of the society than the borrower." It is true that the villager is too poor or too indebted to save, but there are still in many villages a few men who are entirely free from all debt and in a position to lay something by; these men rarely join the local societies, the reason being that they do not need to borrow. In view of our proposal to replace unlimited liability by limited liability we hope that the better class of agriculturists would join societies and deposit their savings with them; they will then act as sentries over their own deposits and will provide that counter-poise which is necessary to keep a stricter watch on the business of societies.

We also suggest that members should be encouraged to put in some small deposits from the excess of money realized by the sale of their produce over their dues to societies. There are difficulties in the way of current deposits being popularized in village credit societies but savings deposits can, to some extent, be introduced in A and B class societies. Where a financing bank or urban bank or post office savings bank is within easy reach, arrangements can be made to deposit moneys in them and to draw the amounts required by members from time to time.

We entirely agree with the view that, unless as the movement progresses, there is a substantial increase in rural savings and deposits, it will have to be confessed that co-operation has failed in one of its objects. It is the duty of the societies of the future as well as of supervising or financing institutions to teach the members that their interest lies not only in carrying on their business with borrowed money from societies, piling up their debts from time to time but also in trying to accumulate their savings and to reach a stage of self-sufficiency in order that ultimately they may depend upon their own resources and resort to borrowing only in exceptional circumstances. Village credit co-operatives can be held to be successful only to the extent to which they succeed in creating a spirit of saving among their members. Particularly is this necessary during a period of boom. If the present war continues for a long time there might be an appreciable increase in the income of the agriculturists. Since, however, such boom period might, as on the last occasion, be short-lived, it is essential that they do not fritter away their increased income in useless or extravagant expenditure. They must be made to realize that prosperity is only temporary and that they should make provision for the future. They must be persuaded to utilize their increased income for paying off their

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with ability who could guide the movement on proper lines. future. It is generally stated that the cultivator does not save even in good times because he has no facilities for safe investment. One of the objects of village societies is to supply this lacuna. Societies may frame by-laws requiring members to deposit with them a certain portion of the sale-proceeds of their produce.

Transfer of overdues to land mortgage banks.

(8) We have already made a passing reference to the question of the transfer of overdue loans of members of village credit co-operatives to land mortgage banks, after they have been brought down to a level at which there is a reasonable prospect of repayment out of the profits of agriculture within a reasonable period. We note that the department has been exhorting societies and mortgage banks from time to time to effect such transfer wherever circumstances permit. We, however, understand there are difficulties in the way of a large-scale transfer of overdue debts. The principal difficulty is that most of the debtors cannot satisfy the tests imposed by land mortgage banks preliminary to such transfer, viz., adequacy of security, net income, repaying capacity, etc. In fact, enquiries made in the past in this behalf disclose that the total consolidated debts of a good many defaulters exceed for beyond the limits and margin on which mortgage banks are allowed to lend. It is also likely that central banks themselves may sometimes feel reluctant to transfer to mortgage bank loan accounts which are good, even though they may be frozen. We do not, however, suggest that the efforts in this direction should be relaxed; on the other hand, we consider that all agencies —village credit societies supervising unions, central and land mortgage banks—should by suitable planning and co-ordination of effort, examine the possibilities of such transfer and afford relief to borrowers and help societies in the segregation of overdue debts. Even if these efforts require additional staff, it is worthwhile incurring expenditure on their employment

Need for improvement in educational and moral tone of the movement.

(9) We subscribe to the view that any measures taken to improve the working of village credit societies are bound to remain in the nature of a stop-gap, unless the educational and moral tone of the movement is improved and that, if co-operation is to be a success it must be built up on solid character. This is admittedly a difficult task and requires all the energies, efforts and enthusiasm of which financing and supervising agencies and co-operators engaged in the movement are capable. We admit that honest men are not rare in rural areas, but there are few men of character

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with ability who could guide the movement on proper lines. Besides what central banks and unions can do in the matter, we feel that one possible remedy for this is the training of young men of initiative and character for rural and co-operative work. Trained village guides should be able to influence the tone of working of societies and constantly educate the men in charge of them in co-operative and business methods. Elsewhere we have dealt with the need for the employment of village guides for co-operative societies and village panchayats.

Property statements.

197. The maximum borrowing power of an unlimited liability credit society is fixed usually at a figure not exceeding one-eighth of the net total value in the property statement. The statement is, therefore, a very important document to be maintained by this type of societies under the rules framed under the Madras Co-operative Societies Act. Instructions have been issued from time to time by the Registrar as regards the correct preparation and maintenance of the statements so that they may serve not only as a basis for the assessment of the total borrowing power of societies but also as data for the estimate of the repaying capacity of members, with reference to their annual income and expenditure. Nevertheless, it is found in actual practice that property statements are seldom, if ever, correctly prepared. The correct preparation ultimately depends upon the persons who prepare them, and unless they realize their responsibility, no rules can ensure their correct preparation. Auditors have also been instructed to check the statements carefully and to bring to notice mistakes detected.

In view of our recommendation that unlimited liability may be replaced by limited liability, the maximum borrowing limits of societies which adopt limited liability will have to be regulated with reference to their owned capital (share capital and reserve fund), and not the net assets of all their members as a whole. Still, we consider that in order to regulate the normal credits of members and facilitate the system of forecast loans or cash credits or controlled credit, it is necessary to have the property statements prepared even in the case of such societies. They will serve an important economic purpose in so far as it discloses the economic needs of members. In the case of societies which adopt limited liability, this statement may be modified, if necessary, to serve this purpose.

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CHAPTER VI.—SOCIETIES FOR SCHEDULED CLASSES AND ABORIGINAL AND HILL TRIBES.

Present condition of scheduled classes societies.

198. We have described the origin and development of societies intended for the benefit of the scheduled classes and pointed out that they consist not only of societies for the supply of credit, but also of others which have as their objects the purchase of house-sites to provide shelter for them and for the taking up of land on lease or assignment from the Government for the purpose of cultivation. We notice that the general financial condition of most of these societies has been unsatisfactory. The main causes for this are their widespread poverty, a state of more or less perpetual indebtedness to landowners under whom these classes generally serve, illiteracy or lack of employment. Generally speaking, these classes have hardly any saving or repaying power; their income is meagre, unassured and unsteady, as many of them get only seasonal employment. Though some of them own land it is neither fertile nor fully reclaimed or explored, and those who are economically better off hardly display any sense of obligation to their weaker brethren. To add to this, drink is a prevalent evil. Credit presupposes security and certain means of repayment and considered from this fundamental standpoint, scheduled classes constitute bad risks for banking institutions to deal with.

The house-sites societies are no better. The high prices at which house-sites were acquired, costs of acquisition proceedings, the heavy interest rates charged coupled with the discouraging economic conditions already referred to account for the unsatisfactory working of this class of societies. Repayments have not been made in some societies for years together.

Societies for joint cultivation suffer from similar disabilities. Assignment of land unaccompanied by the necessary facilities does not help the scheduled classes very much. Reasonable finance for reclamation of lands, improvement of irrigation facilities, wherever necessary, adequate provision of free grazing grounds for cattle are some of the facilities of which they are in need; and in the absence of them, the societies feel they cannot make headway.

We have already stated that the Madras Christian Co-operative Central Bank was the main financing agency for the scheduled classes societies scattered over the Province and with the liquidation of this bank, the question of financing the societies has become a matter of concern to the Government and the department owing mostly to the reluctance on the part of central banks to take them over and to finance them.

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Need for separate societies for scheduled classes.

199. We now proceed to make our recommendations. The question has been raised for our consideration as to whether it is necessary to have separate co-operative institutions for the scheduled classes. We deprecate the formation of co-operative societies on a sectional or communal basis as they are opposed to the basic principles of co-operation; it is the common economic interests rather than community or caste that should be the bond. In consideration, however, of the special circumstances of the scheduled classes, a majority of us feel the necessity for having separate co-operative societies for their benefit. If, in any locality, they do not wish to form a co-operative society on a communal basis and desire to join an existing co-operative society, we would welcome the arrangement.

We are aware that there is a section of opinion which considers that in the interests of the common life of the village community, scheduled classes should share along with other communities the benefits of rural co-operative organizations. Their point is that these classes, being mostly illiterate, do not provide competent personnel for their panchayats, that for the purpose of supervision, maintenance of accounts, preparation of loan applications or recovery of loans the scheduled classes societies have practically to depend upon the staff provided by the Government, that there is no supervision from within the society and that thereby they suffer a great disadvantage. For ordinary credit purposes, therefore, scheduled classes should, in their opinion, join existing credit organizations, though for special purposes like joint cultivation of lands taken from the Government on lease or purchase of house-sites, separate institutions might be organized and worked. We appreciate this position but we are not convinced that, under present conditions, this proposal is capable of translation into practical action. In fact, one of our members (Hon'ble Sri V. Ramadas Pantulu) considers that the formation of separate societies for scheduled classes may continue for the present, but thinks that, if conditions in any particular locality are such as to make it possible to absorb these classes into existing village societies, every effort should be made to achieve that object and to discourage the formation of separate societies. The majority of us have given our consideration to his views and regret that we cannot accept them. The decision whether they should have separate societies or join existing ones is for them to take.

Admission of scheduled class members of ordinary societies into scheduled classes societies for purposes other than credit.

200. We, however, recommend that members of scheduled classes, if they are already members of ordinary village co-operatives, may be permitted to join scheduled class societies also for purposes other than borrowing.

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Labour Department to be in charge of organization and supervision of scheduled classes societies.

201. Many attempts were made in the past to ensure proper supervision and working of scheduled classes societies. The Labour department was long in charge of them. District Labour Officers, assisted by a special staff of co-operative inspectors, supervised their working. A Special Assistant was also appointed in 1930 to work under the Labour Commissioner to co-ordinate the work of Labour Officers and to improve the societies. But, in 1932, this post was abolished. The supervision of societies was subsequently transferred to the Co-operative department. We are constrained to think that in spite of all the attempts made, the working of these societies has not improved. Nevertheless, the need for a suitable supervising machinery is not in our opinion open to doubt.

The Labour department is concerned with the socio-economic work among the scheduled classes. Co-operative endeavour among them is only a part of the comprehensive programme for the economic betterment and the amelioration of the condition of these classes which the Government have undertaken. The officers of the Labour department are in close touch with the economic life and conditions of these people, and they constitute in our opinion the most appropriate and efficient agency for the control, guidance and supervision of co-operative societies among scheduled classes. The officers of the Co-operative department cannot give that constant and exclusive attention which the work among the scheduled classes requires. We recommend that both the organization and supervision of these societies should be entrusted to the Labour Commissioner and should be attended to by Co-operative Inspectors working under him through the District Labour Officers.

Need for Government finance for scheduled classes societies.

202. We have mentioned the difficulty of finding a financing agency for the depressed classes societies to replace the liquidated Christian Central Bank. Central banks are reluctant to assume the position until they have subjected the societies to a close financial scrutiny. This will involve delay and the result is doubtful. We feel that in view of the special circumstances of the case, Government must undertake it. In the last three or four years even the deserving of these societies have been starved for want of financial accommodation, and they have ceased to be of any use to their members. We suggest that this question should receive the immediate attention of the Government.

Need for a ten-year plan of economic reorganization of scheduled classes.

203. We are convinced from the past working of societies for scheduled classes that provision for credit alone will be of little value to them. The bulk of the credit given them would appear to have been used for consumption, not production and it has not

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made them economically better or freed them from being indebted to the land-owners on whom most of them depend for their existence. A co-operative credit society has been another source of easy credit to them. We, therefore, suggest that the Government should undertake a ten-year plan of economic reorganization of scheduled classes. The plan should be inaugurated with the following among other objects :—

(a) Agricultural colonization.

The practice of assigning lands to these members on individual pattas should be discontinued and assignments should be made to colonies registered as co-operative societies. The societies in their turn may divide the blocks into plots and sublet them to members. This will no doubt prevent the acquisition of transferable rights in land by the members. This itself is no evil; it will prevent the greater evil of alienation of land by members by mortgage, sale or otherwise. It is true that members will be always of the status of tenants, and not landholders. Provided, however, their tenancy is hereditary with well-defined and acceptable conditions, we see no objection to the status of members being one of tenancy. Such a measure may make cultivation economical and possibly promote collective farming; it will preserve " economic holdings " and prevent subdivision.

In the past, when lands—particularly " lankas " in the delta districts—were leased to colonies of scheduled classes, they were sometimes assessed at competitive rent levels so that the assignments were not found to be economically helpful to them. We suggest that the lease of agricultural lands to colonies formed on a co-operative basis should be on a small or nominal rent and not at competitive rents.

(b) Subsidiary occupations.

We suggest that subsidiary occupations and suitable cottage industries be introduced so that the members may profitably employ their spare time. Fruit-growing, dairy-farming, market-gardening, sericulture, sheep-farming, poultry-farming, spinning and weaving, carpet-making, mat-weaving, fuel-gathering, etc., should be encouraged among the colonists to increase their earning capacity, and the necessary facilities by way of technical advice, subsidies, etc., should be afforded to them.

(c) Grant of loans in kind.

Loans in cash should, as far as possible, be eliminated and the needs of the colonists between the cultivation and harvest seasons should be met by supplying them grain, cloth and other domestic requirements.

(d) Establishment of pawn shops.

We suggest that pawn shops should, wherever possible be established to accommodate these colonists and other members of scheduled classes with small loans on the pledge of their

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movables such as utensils and ornaments of small value. As it is, these classes are being exploited by money-lenders who resort to malpractices and exercise undue influence over them.

(e) Propaganda and education.

Propaganda and education among scheduled classes are more vital and necessary than among other agricultural communities; a desire for self-improvement needs to be created amongst them. We recommend that special propagandists, preferably drawn from the Harijan community, be appointed to educate members of scheduled classes in the principles and practice of co-operation and its benefits.

(f) Abolition of compulsory labour.

We understand that a system of agricultural labour known as " Murichittu " in Tamil Nad and " Gasigallu " in the Ceded districts prevails and that it virtually enslaves the scheduled classes. In the Tamil districts " murichittu " is also known as " panniyal pathiram " and " adimai sasanam." Though it does not exist in its old form we gather that generally landlords advance moneys to the depressed classes against pro-notes and the labourers agree to work for very small wages. The worst aspect of the system seems to be that the labourer commits not only himself but also his successors to service. The payment of money, if any, by the labourer is seldom credited towards principal, and so long as it is outstanding, there is the virtual slavery of the labourer. " Gasigallu " is also a form of agricultural slavery. Landlords advance moneys to depressed classes for family or other expenses on condition that they should render service free or for nominal wages. The conditions generally imposed are that the labourers should render labour in the landholder's house, that they would get free meal daily and cloths once a year and that the members of the family of labourers should work on concessional wages whenever called upon to do so. Generally a period of three to five years is fixed for their free service and it may be extended to ten years. Free service is generally taken as equivalent to interest payable on the advances made to them. The worst feature of the arrangement is the more or less perpetual slavery of the labourers to their landholders. The landless labourers mortgage, as it were, their labour. It is stated that landless labourers of other castes are also victims of this system. Deprived of their economic freedom, they have no initiative or enthusiasm to improve their lot; they rarely exhibit any spirit of enterprise. These practices, which still prevail in parts of the Province, perpetuate a system of slavery among agricultural labourers and landless workers and constitute a relic of a past age. We recommend that, in the interests of the civilized existence and economic freedom of these classes, the Government take steps through legislation if necessary to abolish these practices, wherever they exist.

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Need for debt relief legislation for farm labourers and landless workers.

204. The 1931 census classification of the chief contributors to 1,000 persons engaged in cultivation is as follows :—

Agricultural labourers	429
Cultivating owners	390
Cultivating tenants	120
Non-cultivating owners	34
Non-cultivating tenants	16

The preponderance of agricultural labourers is at once apparent and these with the working owners constitute over 80 per cent of the total persons engaged. in agriculture. There are reasons to believe that the farm labourers and landless men are on the increase.

The enquiries made by Mr. Sathianathan have shown that of the 564 families coming under investigation, 23 were families of farm labourers owning no lands with a total debt of Rs. 1,739; in other words, the debt per family was Rs. 76 and per head Rs. 15. A recent survey made by the Annamalai University Professor of Economics and his research student has shown that the indebtedness of the nine families examined was Rs. 932; in other words, the debt per family was Rs. 104 and per head Rs. 15. We feel that the economic conditions of existence of farm labourers call for remedial action, and one way of relief is the lightening of their debt burden. We recommend that a suitable measure of debt relief be enacted for the benefit of farm labourers and landless workers.

Aboriginal and hill tribes.

205. The Government have been doing useful work for the reclamation of Kallars, Koravas and other criminal tribes through schools and co-operative societies and the provision of the means of earning an honest livelihood. We have referred in paragraph 29 of our report to the working of co-operative societies among the Kallars.

The hill tribes who are scattered over the Province constitute the most primitive and backward section of the population. The Konds and Soras of the Vizagapatam Agency, the Koyas of the East Godavari Agency, the Chenchus of the Nallamalais (in Kurnool), the Yenadis of Sriharikota (Nellore), the Kurumbas and Todas of the Nilgiris, the Malayalis of the hill tracts of North Arcot and Salem and the jungle tribes of Kollegal, North Coimbatore, Palghat and the Wynaad, the Mannadis of the upper Palni and the Paliyans of the Western ghats come under this description.

Ameliorative work for the hill tribes.

206. The Government have provided social services, rural dispensaries, schools and co-operative societies, for the amelioration of the tribes. The Forest department * takes an interest in

* Administration report of the Forest department for 1938–39.

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the welfare of the aboriginal tribes living in the forests and provides them employment by allotting them land on lease or for "Kumri"* cultivation free of assessment. In the Agency tracts the hill tribes enjoy free removal of forest produce for domestic and agricultural purposes, free grazing and free hunting and in Godavari upper free *podu* (shifting) cultivation in unreserves. In return for these concessions they are required to protect forests and supply labour for forest works for which they are paid at local rates. In the Vizagapatam Agency there is a co-operative society; in the East Godavari Agency there are 14 societies. Provision has been made for the dispensing of justice to them. The Forest department employs the Yenadis of Srihari-kota in the Nellore division on collection of minor forest produce and on watering casuarina plantations These people have devised a method of special investment towards provision for illness and old age, i.e., they invest in the Post Office Savings Bank under the control of the District Forest Officer a portion of the money reward they get from the Forest department. There is a co-operative society started for the benefit of the Yenadis and the forest subordinates.

The Chenchus of the Nallamalais also enjoy free grazing and hunting and free removal of fuel, small timber and other forest produce and have been granted over 2,300 acres of land for cultivation free of assessment. They are employed in forest works for which they are paid. To prevent crime, they are being induced to take up regular cultivation; some plainsmen have been appointed as headmen of *gudems* to teach them cultivation and some Chunchu boys have been selected and placed under ryots to learn cultivation while some others have been deputed for training in agriculture at the expense of Government. Agriculture is also taught in Chenchu schools to which demonstration plots are attached. Deserving Chenchus are employed as headmen, deputy headmen, metta talaiyaris, forest guards, watcher and as teachers in Chenchu schools. A provision store is maintained for the benefit of the Chenchus by the Forest department and the forest contractors. A co-operative society has been started for the Chenchus at Indireswaram and the fuel coupes and the minor forest produce of Sivapuram range were leased to it. Another society has just been formed. There are 24 elementary schools including one for girls. The pupils are given books and clothing free of charge. There is an hospital which gives them free medical aid.

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* We understand that what the "Kumri" method means is that the hill tribes fell and burn what exists on the ground after removing all that is salable and plough the ashes so that a good fertile soil is obtained and then sow and plant trees at such a distance apart as will allow the cultivation of interim space with field crops. Such lands can be cultivated for one or two years according to circumstances after which it is handed back to the Forest department with its new crop of trees and a new land is allotted for cultivation on the same lines.

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The Malayalis of the hill tracts of North Arcot and Salem are employed on forest works and as forest subordinates and are allowed free removal of forest produce and grazing at half rates; the amounts collected are subsequently refunded to them for satisfactory protection of the forests from fire and theft. The jungle tribes of Kollegal, North Coimbatore, Palghat and the Nilgiris and the Wynaad are granted lands for cultivation within the forests on annual leases free of rent, in return for which they protect the forests and supply labour for forest works on payment.

Exploitation of hill tribes and their condition.

207. The hillmen in the Agency tracts of the Vizagapatam and Godavari districts are protected by the "Agency Tracts Interest and Land Transfer Act." One of its main provisions is that a transfer of immovable property unless it be to another member of the hill tribe is void if it has not the assent of the Governor; if a transfer is made in contravention of this provision, the Agent to the Governor may on the application made by anyone interested order ejectment of any person in possession claiming under the transfer. We understand however that these provisions are in practice not availed of and that the hillmen generally allow their creditors to take possession of the property without protest and consequently land passes out of the possession of the very unsophisticated hillmen. The reason why no application is ever made to eject those who get possession of the hillmen's land is that if they file suits against the *sowcars*, he will refuse to give them advances in future. There are reasons to believe that the hillmen, primitive and uneducated as they are, are exploited by the less scrupulous money-lenders and tradesmen.

We have no reliable information as to the exact conditions under which credit is supplied to the hillmen by *sowcars* in the other parts of the Province. We, however, learn that the general practice is that the *sowcars* or the merchants supply the requirements of the hillmen in kind including food-stuffs, etc., and stipulate that they should hand over to them on their own terms the minor forest produce which they collect. The *sowcars* take the produce at ridiculously low prices and debit accounts are always shown against the hill men. The result is that these unfortunate men are kept in perpetual indebtedness to the sowcars who exploit and victimise them to the full. The Chairman of the Committee in a tour on the Kodaikanal hills had information given to him which confirmed this. The Mannadis in the Upper Palnis in the Madura district are compelled to sell their chief commercial produce, garlic, to the merchants on the plains to whom they are indebted and a large number of them are unable to join co-operative societies which have been started for their benefit. Illiteracy and their isolation from the outside world are other factors which add to the difficulty of the problem.

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Need for formulation of policy for socio-economic amelioration of hill tribes.

208. We have already referred to the general ameliorative work which the Forest department does for the benefit of hill tribes. We suggest that Government should formulate a comprehensive policy and concert measures for the educational, social and economic improvement of these men. Any such policy should, in our opinion, be based upon the results of a detailed survey of their existing conditions. We recommend that Government may place an officer on special duty to study the conditions of existence of the hill tribes and to suggest the measures necessary to help them out of their present unsatisfactory position.

Co-operation among hill tribes.

209. The Co-operative department has been interesting itself in the economic welfare of the hill tribes. We have already referred to the working of societies for their benefit. We notice that there were 96 societies on 30th June 1939, of which 72 were in the Nilgiris for the Badagas and Todas, fourteen in East Godavari, seven in Salem and one each in Vizagapatam, North Arcot and Kurnool districts. Recently a purchase and sale society was started for the benefit of the Chenchus of the Kurnool and six societies for the benefit of the Mannadi community in the Upper Palnis in the Madura district. We notice that apart from these societies, enquiries have been pursued with a view to the forming of more societies for the hill tribes.

We may state here that co-operation among the hill tribes cannot follow the accepted lines of co-operative theory and practice; co-operation amongst them cannot be a voluntary association with elected committees and democratic management. What we vizualise is an organization designed for their uplift and run with Government help under the control of its officers, like the society recently formed for the benefit of the Chenchus. It is a type of purchase and sale society. The society has for its object the purchase and sale of the produce brought by them. The Government have sanctioned a loan of Rs. 10,000 towards its working capital and permitted the Chenchu teachers employed under the Forest department to serve as depot-keepers to ensure that the produce stored in the depots is properly accounted for. The Collector of Kurnool, the District Forest Officer, the Forest Ranger and the Assistant Registrar of Co-operative Societies are all directors of the society, and a Co-operative Inspector is expected to be in charge of it and direct its working. What we have in view is a co-operative society of this type, but to this we should add a stores section to supply food-stuffs, clothing and other requirements of the hillfolk. Government finance and Government staff for management, supervision and direction are essential. It is needless for us to stress the point that much of the

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success of co-operative endeavour among these classes would depend upon the co-ordination between the Revenue, Forest and Co-operative departments.

Other ameliorative measures suggested.

210. Co-operative work alone of the kind which we picture will not achieve much; it should proceed alongside of other measures designed to promote the economic uplift of the hill tribes. Most of the hillmen are in the clutches of the plainsmen and are indebted to them and it is necessary to free them from their hands. Measures should therefore be formulated for relief of existing indebtedness amongst them, by scaling down and conciliation. Further, the *sowcars* and merchants should be prevented from coercing the hillmen into parting with their produce in settlement of their debts.

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CHAPTER VII.—URBAN CO-OPERATIVE CREDIT SOCIETIES AND EMPLOYEES' SOCIETIES.

Classification of non-agricultural credit societies.

211. The departmental statistical statements deal with all non-agricultural credit societies as a whole; they do not furnish a clear and separate classification of these societies particularly of the number of *urban banks* strictly so called and their transactions. We find that on 30th June 1939, there were 1,131 societies grouped under non-agricultural credit societies. They consist of the following classes :—

Employees' societies, i.e., societies composed of Government servants, employees of local boards, industrial firms and factories, etc....	502
Other urban credit societies or urban banks composed of all classes of urban population ...	589
Thrift societies	40
Total ...	1,131

On a further analysis of the 589 urban credit societies we find that only 194 are working with a working capital exceeding Rs. 20,000. We consider that it will make for clearness if urban banks as such, i.e., banks dealing in current accounts or at any rate banks which accept deposits generally and which, under the rules are required to maintain fluid resources, are dealt with separately in the departmental statistics and reports as distinct from other types of credit societies intended for employees or others.

General financial position of non-agricultural credit societies

212. The 1,131 non-agricultural credit societies at the end of the co-operative year 1939 had a total membership of 292,844 and a working capital of over Rs. 417 lakhs. The working capital was composed of (*a*) share capital, Rs. 92 lakhs; (*b*) deposits from members, Rs. 107 lakhs; (*c*) deposits from non-members, Rs. 133 lakhs; (*d*) reserve fund, Rs. 39 lakhs; (*e*) loans from financing institutions, Rs. 30 lakhs; (*f*) other funds, Rs. 16 lakhs. It may be seen that urban credit societies depend mostly upon their owned capital (share capital and reserve fund 31·4 per cent) and deposits from members and non-members (57·6 per cent). Their borrowings from financing banks constitute a minor proportion of their funds (7·6 per cent).

The percentage of arrears due by all non-agricultural credit societies to financing banks and others was less than 5 per cent in respect of long-term (medium-term) loans and about 1 per cent in respect of short-term credits.

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The percentage of arrears due by members to societies were 22·61 per cent under long-term loans and 14·62 per cent under short-term loans as on 30th June 1939.

We feel that on the whole urban credit societies (non-agricultural credit societies) have been working satisfactorily.

One urban bank for one town or urban centre.

213. An examination of urban credit societies or banks shows that in many of the towns there is more than one urban bank or credit society working. This results in the overlapping of their jurisdiction and in undesirable competition for securing deposits or business. A single urban bank in an important town or urban area will be conducive to financial strength and stability. Large transactions, tapping of cheap money, appointment of competent paid staff, adequate provision of modern banking facilities, availability of sufficient margins for building up strong reserves and a financial standing and reputation in the money market—these are the points in favour of a single urban bank. In places where more than one bank exists, it is possible to amalgamate them.

It is not our intention that no one who is a member of an urban bank or credit society should not be a member of another urban society serving a purpose other than the supply of credit, for instance, a milk supply union or a stores society or a marketing society. Only he should be effectively prevented from being or becoming a member of another *credit* society by the enforcement of rule XX of the rules framed under the Madras Co-operative Societies Act and from borrowing from more than one credit institution excepting a land mortgage bank or a house-building society.

These remarks are not meant to be applied to a big city like Madras.

Size of urban banks—Constitution of sub-societies in the case of big banks—Mode of election to the board.

214. Where the area and membership are large, difficulties may arise in the matter of administration or election of directors or conduct of general meeting of members. We are not in favour of limiting the membership or the area of operations or in splitting up of banks in such cases. These difficulties can be overcome by the constitution of " sub-societies " with a limited area of jurisdiction and a committee elected from among the members living in its area. The " sub-societies " should be entitled to send representatives to the board of management of the bank. They will recommend the admission of members, grant of loans and so forth. The parent society will continue to receive deposits and sanction and disburse loans to members of sub societies. Where " sub-societies " are not or cannot be constituted, the election of directors to the board of the bank should be arranged on the basis of the " Ward " system or through an electoral committee.

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Period of office of directors.

215. We recommend that the term of office of the directors of urban banks should be three years and that retiring directors should ordinarily be eligible for re-election. But it should be open to any urban bank or society to bar re-election for a specified period.

There are obvious advantages in the system of retirement of directors by rotation, that is to say, one-third of the members of the board may retire every year and in their place new directors may be elected. We commend this for adoption.

There is at present no uniform set of rules governing the election of directors. In view of the factious spirit in which elections are sometimes fought in urban banks and of the frequent disputes regarding elections, we suggest that the Registrar may frame a set of rules to regulate elections.

Qualification of directors.

216. We do not propose to impose any restraint on the freedom of choice of directors by the general body of members of banks or societies. Normally, there should be no monetary qualification necessary for a member to be elected as a director, but in special cases a minimum qualification by way of share-holding or deposits may be prescribed.

A suggestion has been made that the member to be elected as director should possess adequate knowledge and experience of the working of the bank and that no member who is not at least two years old in a bank should be elected to any office. We content ourselves with drawing attention to the suggestion and leaving the adoption of it to the discretion of urban banks.

Yet another suggestion is that no director of an urban bank should be interested directly or indirectly in any contract made with the bank or any sale or purchase made by it privately or in any auction or in any contract or transaction, other than investment and borrowing, involving financial interests; further, no director of officer of the bank should purchase directly or indirectly any property of a member of the bank brought to sale for the recovery of his dues to the bank. We commend the adoption of the suggestion by urban banks, wherever possible, through an amendment of their by-laws.

Constitution of an advisory board in big urban banks.

217. One of the suggestions we have received is that an advisory board consisting of all ex-presidents, ex-secretaries and others representing the interests of depositors and of business and trade should be constituted in every big-sized urban bank in addition to the board of management for purposes of obtaining expert advice on matters of policy or of administration of the bank. Firstly, we are afraid that the machinery of administration of urban banks will get complicated by the constitution

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of the proposed board. Secondly, it will not facilitate quick despatch of work. Thirdly, it will not make for its smooth working. We are not therefore in favour of the proposal.

Appointment of qualified paid staff and, where necessary, of paid secretaries.

It is hardly necessary for us to stress the need for improving the business efficiency of urban banks and for the employment of competent and qualified staff for their satisfactory working. The work of urban banks has, in recent years, been increasing in volume, complexity and variety and if they are to work on modern banking lines, and to further extend banking and credit services to a larger body of urban population, a well trained and efficient paid service is essential. Wherever the banks are operating on a large scale and local conditions require it, we recommend the appointment of paid secretaries.

Credit policy—Kinds of loan business.

218. The credit policy of urban banks and societies and the securities against which they make advances have been on the whole satisfactory. We recommend that they should continue to give loans to their members on personal suretyship, mortgage of immovable properties, deposits of gold and silver and insurance policies. They may also make advances on the pledge of jewels, agricultural produce and industrial products, utensils and other household articles of value.

In the case of loans against gold and agricultural produce we suggest that the area of operations of urban banks may be extended to villages within a radius of five miles beyond the area of the towns in which they are located provided there are no credit societies in the villages concerned which are engaged in such business.

Extension of loans against gold and silver.

Some of the urban banks have already been lending against gold and silver, but not on any large scale. The taking of advances by the people on the pledge of jewels has been an age-long method of borrowing and this business has been practically monopolized by *Marwaris* or other professional money-lenders. The usurious rates at which the poor people obtain advances from them are well known, they are, at times, ruinous to borrowers. We should like to see an extension of this business by urban banks subject to the safeguards imposed by the department.

Grant of loans against agricultural produce.

As regards the grant of loans by urban banks against agricultural produce, we may add that this should be permitted only in the absence of sale societies working in the centres concerned and subject to the safeguards observed by sale societies in such cases.

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Financing of handicrafts and cottage industries.

There is a feeling that urban banks have not done much to encourage handicrafts and cottage industries. While we realize that the existence of urban banks should not stand in the way of societies for separate interests such as societies for crafts, arts and small-scale or cottage industries, we consider that where there are no such separate organizations, urban banks should be entrusted with the duties of organizing and financing, with caution, artisan classes and craftsmen as well as persons employed on a small scale in other industrial occupations in order to save them from exploitation by middlemen and money-lenders and to promote their economic interests and standard of living. We should like the urban banks to take a greater share and interest in the economic life of urban centres and through a proper survey and study of crafts, arts or industries, encourage such of them as can stand on their feet with the necessary financial help.

Extension of banking facilities.

We are glad to note that urban banks have made a beginning in promoting banking methods and habits among the urban population. There is a general consensus of opinion, which we endorse, that they should provide greater banking facilities to their customers such as extension of current accounts and cheque transactions, transmission of funds, collection of bills and issue of drafts and cheques. We should deprecate any attempt on the part of urban banks to *discount* bills as distinguished from the collection of bills.

Grant of cash credits.

One direction in which we think that urban banks can be of greater help to small traders, merchants, businessmen, craftsmen or artisans is through grant of cash credits or overdrafts to them. We recommend that they extend cash credit facilities to their members and indicate below some of the conditions which should regulate the grant of such credits :—

(1) Cash credits may be granted to members who are engaged in small-scale business, trade or industry, generally on the security of fixed deposits, Government securities or debentures of the Central Land Mortgage Bank or on the first mortgage of immovable property belonging to them; the maximum amount of credit may be up to 80 per cent of fixed deposits and securities and up to 50 per cent of the market value of immovable property.

(2) Cash credits may be allowed for a period ordinarily not exceeding one year at the end of which it should be subject to renewal on such conditions as the bank may consider fit.

(3) Cash credits should be operated upon more or less continuously; if it is not used continuously for three or four months or a good proportion of the advances is not

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repaid during the period or if the turnover is not satisfactory, it should be open to the bank to close the account and to take steps to recover the amount drawn and outstanding.

(4) Interest on cash credits should be charged on daily balances and should be payable once in every half-year. The maximum amount of cash credit to be drawn upon by any one member should be fixed.

(5) The bank should have liberty to close the cash credit account of any member without assigning reasons and to recover its dues at one month's notice.

Encouragement of thrift and savings.

219. Urban banks have done something to stimulate the habit of thrift and savings among members by the provision made for savings deposits, recurring deposits, provident fund deposits, etc. We suggest that a continuous and intensive " drive " by urban banks should be undertaken for the greater encouragement of the habit through the provision of extended facilities by way of introduction of thrift certificates and by active propaganda in this behalf. We are informed that what is known as the " day-deposit scheme " has been recently introduced in one of the urban banks. Under the system each member is expected to make a deposit every day of a fixed sum of 4 annas or 8 annas or Re. 1 or a multiple of it, and these deposits are, at maturity, either refunded to him or adjusted towards his loan, if any. It should be easy to introduce this scheme among urban wage-earners, artisans or petty traders and others who have a daily income. We recommend that the system be extended to all urban banks in the Province with such modifications or variations in terms as local conditions justify. For instance, weekly or fortnightly deposits may be introduced if day-deposits are not suitable in the case of any particular section of the urban population.

Overdues—Remedial measures for reduction and prevention.

220. Though the position as regards overdues in non-agricultural credit societies as a whole is not bad, we find that in the case of some of the urban banks the percentage of arrears should be regarded as bad. The existence of overdues in urban banks is attributed chiefly to the failure on the part of managements to observe sound business principles in the sanction of loans. First, we gather from the replies received to the questionnaire that quite a good number of members resort to borrowing to support extravagant habits and that urban banks sometimes advance loans not for productive or economically beneficent purposes. Secondly, it is stated that the repaying capacity of borrowers is not properly assessed or taken into account in making advances. Thirdly, it is pointed out that no proper methods of control have been employed for arresting the increase in overdues. Fourthly, a misplaced leniency is shown towards defaulters

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and sometimes influence is brought to bear over officers and directors of the bank to postpone coercive action against them.

It is necessary that immediate steps should be taken to reduce the arrears and to prevent their accumulation in the future. The following are some of the suggestions made to achieve the object :—

(1) Careful assessment of the credit-worthiness of members and prevention of over-borrowing and unproductive debts;

(2) careful verification of applications for loans, supervision of repayments and exercise of vigilant control over defaulters through the adoption of prompt legal proceedings;

(3) discontinuance of further credits to defaulters and a periodical broadcast of the list of defaulters; and

(4) periodical meetings of defaulters with a view to ascertain their difficulties and to help them if possible and to evoke a sense of responsibility among them.

We commend these suggestions for adoption by urban banks. As most members of urban banks are men with a steady income, it should be possible for them to avoid overdues.

Maintenance of liquid assets.

221. Urban banks holding deposits should maintain liquid assets in order to fulfil their obligations towards depositors. All urban banks and societies with deposits and loans exceeding Rs. 20,000 are required to maintain fluid resources on the standards laid down in the rules prescribed under the Act. We find that the standards are adequate for the purpose and that no change is called for.

Regulation of rates of interest.

222. We find that there is no uniform policy as regards the rate of interest paid on deposits by urban banks. While we recognize that the rates depend to a certain extent, upon local conditions, we consider that the rates laid down by urban banks should not exceed half a per cent over and above the rates on their borrowings paid by the central banks working in the area.

Miscellaneous suggestions for improved working of urban banks.

223. The following are some of the suggestions made for the improved working of urban banks :—

(1) Careful admission of members with due regard to the character, worth and repaying capacity or productive skill of applicants;

(2) suitable arrangements for propaganda through bulletins, pamphlets and lectures in order to draw into the urban credit movement a larger number of people;

(3) exclusion of local board and municipal employees from urban banks or at any rate from the directorate of such

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banks in order to keep them free from election squabbles, which have been detrimental to the financial position of banks;

(4) exclusion of employees of banks from membership in order to prevent them from exercising undue influence in elections or choosing their masters—the directors;

(5) annual publication of the full list of members with addresses and other particulars and the supply of such lists to members at reasonable prices; and

(6) appointment of a whole-time competent surveyor by every big bank for valuation of immovable properties offered as securities for loans and periodical revaluation of such properties.

We commend them for adoption.

Affiliation of urban banks with the Provincial Bank not supported.

224. One of our members (Sri K. Bhashyam) is of the opinion that urban banks which have a working capital of more than Rs. 5 lakhs may be affiliated directly to the Madras Provincial Co-operative Bank with all the rights and privileges attaching to that position. His principal reason for this is that urban banks may get money much cheaper than from central banks. We are not convinced of this. Most urban banks depend for their funds upon their deposits and hardly have the need for approaching financing banks. Even if they require financial accommodation or help by way of overdrafts or cash-credits; the district central banks should be able to come to their help, and in point of fact, urban banks do at present get overdraft accommodation from central banks. Neither on grounds of financial necessity nor of financial principle can direct affiliation of urban banks to the Provincial Bank be justified. We are definitely opposed to the suggestion.

GOVERNMENT SERVANTS' AND OTHER EMPLOYEES' SOCIETIES.

Societies for different classes of employees.

225. Employees' co-operative societies are of various kinds. There are societies exclusively for Government servants of particular departments or a group of departments; there are societies composed of employees of local boards and municipalities; there are, again, societies in which both Government servants and employees of local boards and municipalities are members; a fourth class of societies is intended for the employees of industrial and commercial firms, factories, mills, etc. On 30th June 1939 there were 502 societies composed of all these classes of employees.

Government servants and employees of local bodies to confine membership to societies solely intended for them.

226. We notice that some of the Government servants and employees of local boards are members of urban credit societies

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or banks. These societies have no facilities for the recovery of instalments from them. In some cases, past experience shows that Government servants or employees of local bodies constitute a relatively large percentage of defaulters in them; for obvious reasons, their default is overlooked or condoned and by-laws are not strictly enforced against them for the recovery of overdue debts. We, therefore, consider that in places where there are societies intended either for Government servants or for employees of local boards and municipalities, or for both, they should join only such societies as members and that they should not on any account be permitted to continue or to become members of any other credit society working in the area. Government servants or employees of local boards and municipalities, who are already members of ordinary credit societies should be asked to pay their dues to them, if necessary, by the transfer of their net liabilities to their own societies and to resign their membership from them.

Social background of Government servants and other employees.

227. Our enquiries show that members of public servants' or employees' societies are more or less in a state of perpetual indebtedness as is evidenced by the fact that most of them go on borrowing continuously from societies, while cases of their borrowing both from societies and other sources are considered not to be rare. It is a common sight for the *Pathan* or *Kabuli* money-lenders armed with their clubs to be hovering about some of the Government and Railway offices in the city on " pay-day " or on days immediately following it for the recovery of their dues. The usual reason given for this is that most of these employees are low-paid men and cannot maintain themselves and their families from the pay they earn and that their pay has to be supplemented by borrowing. We appreciate the position that these men have to resort to borrowing often on onerous terms when they are faced with emergencies. But these borrowings should be the exception rather than the rule, because two things must be clear to such men. One is that Government servants or others, depending as they mostly do upon their salary or wages, can afford to maintain a solvent position only by cutting their coat according to the cloth. The other is that they must anticipate and provide in advance for emergencies, say, sickness or marriages or deaths in their families by living within their income and accumulating a reserve of savings. This is very much easier to say than to do. The salary-earning class is probably, on the average, superior to the cultivating class in literary education. But in practical education in the use of money, borrowing and repayment, the corresponding superiority is hard to detect. On the other hand, the morality of the rural areas tends to be more robust than that of the town-dwellers. The lower grades of salary-earners and their women-folk are apt to copy their standards of living, dress and ceremonial expenditure from their fellow-employees higher up, though there is considerable disparity between their scales of pay. It requires more

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commonsense and moral courage than most of them possess to refuse to conform to such standards. It has already been pointed out how difficult it is for the villager, unprovided with a society, to deposit the small sums he might be able to save. In the case of the salary-earner, the amounts saved are likely to be larger, and the facilities for depositing them nearer. But these advantages are balanced by greatly increased opportunities for waste. The moment he goes outside his office, he is surrounded by opportunities and temptations to extravagant and unnecessary expenditure on food, personal adornment or amusement. If he succumbs, the inevitable emergency, when it arrives, finds him without savings, and he is obliged to borrow.* It is not a matter of the lowness of his pay. Even if that was doubled, there would still be men with larger pay above him, and he can hardly resist the pressure put on him by his wife and daughters to live (at least in externals) as they do.

Legitimate function of employees' societies.

228. We are constrained to remark that if an employee cannot practice thrift or cut down his expenses so as to be within the limits of his income, he is not fit for help from any co-operative credit society, because the fact is often forgotten that societies for salary or wage-earners are intended more as instruments for the promotion of thrift and for provision of savings than as agencies for the supply of cheap or easy credit. It should be the primary duty of members of these societies to put in monthly subscriptions subject to the conditions laid down in the by-laws through automatic deductions from their pay or wages by their employers under their authorization. Loans in them ought to be "comparatively a minor matter" and should ideally only be issued against a member's own savings, except in cases of unexpected illness resulting in heavy fees to doctors and expensive payments to chemists and druggists.

Stimulation and enforcement of thrift among members.

229. We note that the Registrar has impressed upon employees' societies the need for compulsory monthly subscriptions by their members to a thrift fund, graded according to their monthly pay. We should like to say that the provision relating to monthly thrift subscriptions should be rigorously enforced and that no relaxation of it should be permitted on any account. Further, we recommend that compulsory savings be enforced through the distribution of home safes and hundies to members, as we consider that this method may prove to be of great educative value to the families of the employees concerned. In this matter the education of the member's family is of more value than of the member himself.

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* Chapter IX—"Co-operation for Economically Undeveloped Countries"—W. K. H. Campbell.

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Compulsory life insurance and provident fund for Government servants.

We suggest that provision may also be made in societies composed of wage-earners for contribution by the members towards daily, weekly or monthly deposits, as the case may be, to stimulate the habit of saving among them.

Another form of enforcing compulsory thrift particularly among Government servants is to induce them to insure their lives and to contribute to the provident fund. It is not our purpose to enter into an elaborate discussion of the conditions of service of Government servants or the indebtedness in which most of them are usually involved. No enquiries have been made into the indebtedness of Government servants or employees of public or quasi-public bodies; judging from the fact that members of Government servants' or other employees' societies borrow more or less continuously not only from societies but also from other sources and from our personal knowledge of the conditions of existence of most of the Government servants, particularly among the middle or lower ranks, we are constrained to think that indebtedness among public servants and employees of private bodies is fairly widespread though this has not received as much attention and thought as it deserves. Instances are not rare of Government servants dying while in service, their funerals having to be performed on the subscriptions of friends, and their families left on the street. We are not here concerned, however, with making any suggestions for measures of debt relief for this class. What we recommend is that the Government should institute a scheme of compulsory life insurance and make subscription to the provident fund compulsory. We also suggest that where Government servants have in addition insured their lives in insurance companies, provision should be made for deduction of the premia from their pay.

Compulsory insurance for non-Government servants.

As regards non-Government servants, such as employees of local bodies, municipalities, firms, commercial houses, etc., we recommend that the institutions or employers should make provision for their compulsory insurance.

We are aware that these measures will throw extra responsibilities and work on the Government and employers but we need hardly stress the importance of their having a solvent and contended staff. No enlightened State or employer should grudge to undertake these tasks in the interests of their employees and their own.

Encouragement of subsidiary occupations among members of employees' families.

230. We also recommend that employees' societies should encourage subsidiary occupations and cottage industries among members of the families of Government and private employees and the Government must assist through subsidies and by the employment of special staff for the purpose.

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Measures designed to check continuous borrowing.

231. We find that one of the fundamental defects in the working of these societies is that the majority of members continuously borrow and are always indebted almost up to the maximum limit imposed by the by-laws, evidently because of the ease and facility with which they can take loans—of more than one kind —from societies. It is difficult to ensure control of credit amongst employees' societies. And we are disposed to believe the statement that sometimes " there is a severe outbreak of sickness before the races take place at the seat of the society " or " where relatives who have died and been duly buried with funds borrowed from the society are subsequently seen, apparently in the enjoyment of robust health."

We are informed that the Registrar has recently taken stock of the position and suggested measures to check this " itch to borrow " more than the members really need. He has suggested that a second loan should not ordinarily be issued to any member before he has repaid a certain proportion of a previous loan or before the expiry of a specified time from the date of disbursement of a prior loan. We are in agreement with these suggestions and hope that they will be rigorously enforced in all employees' societies. A suggestion has been made that in order to check the thirst for loans, a higher rate of interest may be charged on the sum borrowed in excess of the members' own contributions to the thrift fund. We commend this suggestion to societies.

Maximum limit of borrowing by members.

232. We find that there is no uniformity in respect of the maximum credit limit of individual members of employees' societies. Some societies advance loans up to four times the pay, while others make loans up to five times; and cases are not wanting in which the maximum limit is higher than five times the pay. We are informed that in police employees' societies loans are given only up to three times the pay of members. On an examination of the matter, we are of the opinion, that the maximum borrowing power of members of public servants or other employees' societies should be limited to four times their salary provided however that it may be open to societies to grant loans beyond this limit on pledge of jewels or other valuable securities subject to the usual safeguards. We understand that in some cases the maximum limit of loans is fixed at Rs. 1,500 or even Rs. 2,000. We think these limits are too high for societies intended for salary or wage-earners and should be gradually reduced.

Provision for compulsory deduction from salaries of loan instalments and other contributions due by members.

233. Much of the success of employees' co-operative societies depends upon the provision for prompt recovery of instalments from the pay of members. Under the existing orders of the

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Government, pay-disbursing officers are permitted to collect instalments of share capital or of loans due from members on receipt of a demand certified to be correct by the Secretary or President of the society in cases where the members have signified their willingness in writing to have repayments recovered from their pay. The collections so made do not appear in the pay bills, the arrangement being purely an informal one between the society and the pay-disbursing officer. Similar arrangements are made in the case of societies composed of employees of local boards or commercial firms. The absence of a definite provision for *compulsory* deduction from the salary of Government servants or other employees has somewhat hindered the progress of these societies. In order to facilitate collections, we recommend that the Government should take power by legislation, if necessary, to permit pay-disbursing officers to deduct from the salary of their servants instalments of loans or other contributions due from them towards Government servants' societies. Similar powers must be conferred on local bodies or municipalities in respect of societies intended for employees of such boards or municipalities. So far as other employees, i.e., those employed in commercial firms, factories, mills, etc., are concerned, we recommend that legislation should be undertaken by the Government to compel the employers concerned to deduct from the pay or wages of the members of their staff towards their dues to co-operative societies on a requisition from the latter and that the provisions of the Payment of Wages Act, may, if necessary, be modified.

Recovery of dues of employees on transfer.

Owing to transfers of public servants, societies experience difficulties in recovering instalments of arrears due from them. We recommend that where their transfer from the jurisdiction of one society to another takes place, the lending society should have the power to require the controlling officers of the employees concerned at the new headquarters to make deductions towards the instalments due from them and to remit the collections to it.

Provision for attachment of salaries of Rs. 50 and above.

234. One of the principal reasons for arrears in some of the employees' societies is the difficulty felt by them in the attachment of salaries owing to the amendment of section 60 of the Civil Procedure Code. This amendment restricts the attachment of salaries of certain classes of employees to the extent of the first hundred rupees and one half of the remainder of such salary. An analysis made by the Registrar in January 1939 reveals that in 298 societies examined, the number of members drawing Rs. 100 and below per mensem was 71,487, while those drawing above Rs. 100 a month numbered 9,652. In other words, 88 per cent of the members of these societies drew Rs. 100 and below. Formerly, the provision for attachment of salary exceeding Rs. 20 per month acted as a deterrent and induced members to be prompt in their repayment. With the disappearance of this

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provision, there has been an increasing laxity to repay on the part of the borrowers. We think that some protection should be given in respect of debts due to co-operative societies and suggest that the Civil Procedure Code or the rules under the Madras Co-operative Societies Act might be amended so as to provide for the attachment of salaries of Rs. 50 and above.

Encouragement of joint purchase of household needs.

235. A useful form of co-operative effort is the system of joint purchase of members' more common domestic requirements by collecting indents from them. We learn that a few societies have been successfully doing this. By purchasing large quantities, the societies are able to secure articles at wholesale rates. This will also prevent members from frequently borrowing for "domestic expenses." We commend this arrangement for adoption by all employees' societies. It is, however, necessary that societies should fix a limit, with reference to the pay of the members, up to which they may be permitted to deal in this manner through it.

Heads of departments or offices as ex officio presidents of societies.

236. The salary earners' or employees' societies can, in our opinion, be improved a good deal and a new tone imparted to it if the heads of departments or offices take a genuine interest in their working. Their association with the societies will bring them into close personal touch with their subordinates outside their official routine and will give them opportunities of studying their conditions of living and of exercising a healthy influence over them. Their presence on the Board will also act as a restraining influence on the tendency of the members to borrow freely, besides facilitating the recovery of the monthly dues from the members. We, therefore, recommend that heads of departments or offices may be instructed to take interest in the working and welfare of their departmental employees' societies, and if the members desire, provision may be made for making heads of departments or offices *ex officio* presidents of such societies.

Economic conditions of industrial workers in organized and unorganized industries.

237. We have considered the question as to how far co-operation can be helpful to industrial workers. The Royal Commission on Labour in India has observed that among the causes responsible for the low standard of living of the worker, indebtedness occupies a prominent place. Recently the Statistical Officer attached to the Department of Industries has conducted an enquiry into the family budgets of industrial workers in Madras City both in regard to organized and unorganized industries. An analysis

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of the family budgets taken up for examination showed that nearly 90 per cent of the families were in debt and the average amount spent towards repayment of debts each month exceeded 13 per cent of their average monthly income. The indebtedness of 641 families surveyed worked out to 6·32 times the average monthly income of the families, and taking only the indebted families, the average indebtedness was 7·02 times the average monthly income.

Formation of co-operative societies for economic betterment of industrial workers.

238. We are aware that societies have been started and are working for the economic betterment of mill hands in Madras (the Buckingham and Carnatic Mills, etc.) and in other important centres like Coimbatore. We think there is scope for co-operative effort among industrial workers and suggest that the possibilities should be explored. We consider that *credit* societies alone may not be of much help to industrial workers either in organized or unorganized industries. There is, in our opinion, a great need for co-operative stores which will supply the workers with the provisions and clothing they require. The societies should also promote the better living of these classes. Habits of thrift and savings should be encouraged amongst them by insisting upon small weekly or monthly contributions towards a thrift fund or through home-safes. We suggest that the Government should make it obligatory on the part of employers of industrial labour to start and run co-operative societies for their workers.

Weekly payment of wages.

239. One of the effective ways of preventing the workers particularly in unorganized industries from resorting to money-lenders and from becoming victims of their malpractices is to make the payment of wages to workers at more frequent intervals. We, therefore strongly recommend that the workers should be paid their wages weekly instead of monthly.

Provision for constitution of smaller general body of delegates.

240. We have already referred to the question of the size and membership of urban credit societies and suggested the formation of " sub-societies " wherever their area of operations and membership are large and present difficulties of deliberation, administration and election. We find there are 25 employees' societies with a membership exceeding 500 (while the number of urban societies with a membership exceeding 500 is 61). The difficulties involved in the election of directors and of discussion of matters relating to administration particularly of such big societies, require to be satisfactorily overcome. The constitution of a representative assembly or of a general body of delegates, or divisional meetings or postal voting are some of the devices suggested to get over the difficulties. In an urban society, it is possible to group members into wards, each ward electing its own representative

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and all the representatives so elected constituting the general body of delegates. But in an employees' society operating over a vast area, like the Madras and Southern Mahratta Railway Employees' Co-operative Urban Bank or the Post and Telegraphs Co-operative Society, the system of wards or formation of sub-societies is out of the question. A territorial division of the area of operations and the election of delegates for each territorial unit by the members residing in such unit offer possibilities of solving the difficulty. We recommend, therefore, that the necessary provision be made in the rules for the constitution in very big employees' societies of smaller bodies of representatives or delegates in place of the present general body of members in order to ensure a fuller consideration of the subjects brought up for discussion and of proper representation of all sections of members and to prevent a monopoly of office by a narrow or selfish clique or caucus at the headquarters of such societies.

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CHAPTER VIII.—CO-OPERATIVE CENTRAL FINANCING ORGANIZATIONS.

Continuance of present federal structure of central banks recommended.

241. In paragraph 35 of our report we have described in some detail the origin and development of the Madras Provincial Co-operative Bank and of District Co-operative Central Banks. The central banks have served their purpose of financing rural and urban societies and balancing their funds admirably well; they have mobilized local deposits and made them available to primary societies at reasonable rates of interest and have rendered great service in the organization of agricultural finance on co-operative lines; they have drawn into the movement a number of honorary men whose services have been invaluable to the progress of the movement; they have taken a genuine interest in the growth of the movement in their respective areas and in schemes of co-operative education and rural development generally; they have enlisted the sympathy of an increasing body of depositors and, as a rule, have justified the confidence which the depositors have reposed in them. The general financial position of central banks (barring a few banks in which the arrears due by their constituent societies are heavy and whose affairs have, we have been assured by the Registrar, been receiving prompt attention) has on the whole, been satisfactory. The following is a rough balance sheet of the 30 central banks as on 30th June 1939 :—

ASSETS.	RS. IN LAKHS.
1 .Cash on hand and in banks ..	19·79
2 .Investments	122·13
3 .Loans due from—	
(a) Individuals—	
Long term	1·41
Short term	5·59
(b) Societies—	
Long term	229·65
Short term	182·71
4 Interest due	14·11
5 Other items	12·85
Total ..	588·24

LIABILITIES.	RS. IN LAKHS.
1 Loans and deposits from—	
(a) Members and non-members—	
Long term	117·27
Short term	135·29
(b) Provincial and Central Banks—	
Long term	8·02
Short term	60·29
(c) Societies—	
Long term	110·00
Short term	21·16
2 Share capital paid up	49·53
3 Interest due	5·57
4 Cost of management due ..	0·17
5 Other items	5·18
6 Reserve fund	33·80
7 Other funds	30·84
8 Difference between assets and liabilities	11·12
Total ..	588·24

The total assets exceeded the total liabilities by Rs. 11·12 lakhs. Excluding the paid-up share capital and the reserve fund and the other owned funds, the actual outside liabilities of the banks amounted to Rs. 462·95 lakhs. Setting off this amount against the total assets of Rs. 588·24 lakhs, there is a margin of Rs. 125·29 lakhs between the total assets and the total outside liabilities. The

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total bad and doubtful debts of all the banks put together amount to about 41·32 lakhs, and even taking these into consideration there is an ample margin between the assets and the outside liabilities. Further, nearly a fourth of the total assets is in the form of cash and liquid investments. The financial position as a whole may, therefore, be said to be satisfactory. The combined balance sheet does not, however, disclose the relative financial position of individual central banks but it does give a rough idea of their general position.

The relations between District Co-operative Central Banks and the Madras Provincial Co-operative Bank are of a loose federal type. The Provincial Bank is, so to say, a banker's bank. It receives from the central banks funds which they are not in a position to utilize locally and lends them to banks which are in need of money; thus it acts as a balancing centre. Further, it forms a connecting link between the money market and the co-operative movement; it raises money in the money market and makes it available to co-operative banks. By virtue of its important position in the structure of co-operative banking as an apex bank, it secures co-ordination of effort and direction of co-operative finance. Through the annual central banks' conference which it convenes, it provides the banks with opportunities for discussion of common matters connected with co-operative banking and finance and secures uniformity of banking policy and practices among its constituent central banks. Further, it serves the larger interests of the movement by periodical grant of subsidies to central banks for development of co-operative activities other than credit. We are satisfied with the present structure and form of central banks and are of the opinion that the banks should continue to be independent financing banks for their respective areas and to be affiliated to the Madras Provincial Co-operative Bank as at present and consider that the present federal structure should, on no account, be disturbed.

Proposal for conversion of district co-operative central banks into branches of the Provincial Bank negatived.

242. A proposal has been made to convert the central banks into branches of the Madras Provincial Bank. We should like to examine the proposal in some detail before we record our opinion on it. Firstly, it is stated that central banks are more or less intermediaries in the co-operative banking structure and that they can be eliminated with advantage to the ultimate borrower who could then be provided with cheaper credit. This position is totally incorrect. We find that the total liabilities of central banks on 30th June 1939 amounted to Rs. 588·24 lakhs, loans from the Provincial Bank outstanding on that date being Rs. 56·93 lakhs, i.e., 10·1 per cent of the working capital. Inclusive of overdrafts amounting to Rs. 7·15 lakhs, the percentage would be 11·3. Most central banks depend upon their own local resources for their working capital. As an apex bank, the Provincial Bank finances

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those central banks which are in need of money and offers cash credit facilities to all central banks partly on Government paper and partly on co-operative paper (i.e., pro-notes executed by primary societies in favour of central banks for loans taken by them). The presumption that central banks derive all or a major portion of their funds from the Provincial Bank and pass them on to their constituent societies, charging in the process, a far higher rate of interest than that at which they obtain loans from the Provincial Bank, to provide for their administrative expenses, is not correct. As a matter of convention, central banks till recently used to take deposits at rates at least one-half per cent less than the lending rate of the Provincial Bank; from January 1940 the convention has been that central banks take deposits at a rate not exceeding the lending rate of the Provincial Bank.

Secondly, it is argued that conversion of central banks into branches of the provincial bank will concentrate banking skill and experience and funds in one place and effect a saving in expenses of management. The volume of business of many central banks is fairly large, and with the expansion of the movement on the lines envisaged by us, it is bound to increase; consequently, there is need for the continued employment of capable and well-paid staff. We are then sceptical of any economy in expenditure, and even if there be any saving, we feel certain that it would be eaten up by extra expenditure needed for employing an adequate inspecting agency to supervise the working of branches on behalf of the Provincial Bank.

Thirdly, it is expected that the constitution of branches of the Provincial Bank in the place of central banks might ensure uniformity of financial control and co-ordinated action. We are aware that in matters of banking and finance, such uniformity is necessary, but we think that in the annual central banks' conference, there is an agency, which, if it be put on a more scientific and permanent basis, would ensure collaboration and uniformity in financial matters such as borrowing and lending rates, deposit or credit policy, arrangements for transmission of funds, maintenance of fluid resources, etc.

On the other hand, we are afraid that there are serious disadvantages involved in the proposal. In the first place, the proposal would amount to converting the present boards of directors of central banks into advisory committees of the branches with paid managers in charge. It is more than likely that advisory committees will not take a genuine interest in the development of branches and consequently of the movement in the district. An independent bank inspires local men with enthusiasm and zeal and creates a sense of local pride among directors, which is a great asset to the movement. If provincialization of financing structure as suggested is effected, it will diminish local voluntary enterprise and initiative and may even affect the flow of local money from depositors. Secondly, the existing intimate contact between central banks and their affiliated societies, which is so essential for the success of co-operative endeavour, would tend to disappear.

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Central banks have an intimate knowledge of the needs of their respective districts or field of operations and enjoy a freedom of action which they can and do use to satisfy the needs of their constituent societies with a degree of flexibility which it will be difficult to find in a branch of the Provincial Bank. The co-operative financing structure, as it has been evolved in the Province, has served its purpose admirably well; central banks have performed their main tasks of accumulation and the pooling of local resources for granting credits to primary co-operative organizations. They will have a more useful part to play in the future in financing the movement of agricultural produce and cottage industries organized on co-operative lines. Thirdly, the existence of central banks as intermediary bodies serves to distribute any sudden shock to the financial structure evenly over the whole movement. Without them, the force of it will fall wholly on one institution which cannot withstand it, however well it may be managed. Any widespread economic depression, resulting in the freezing of assets of village societies, will have a disastrous effect upon the Provincial Bank if it finances primary societies in the Province through its branches. It will be well for us at this stage to refer to experience elsewhere. The old Central Provinces Provincial Co-operative Bank represented the type of Provincial Bank which has a union of central banks without any outside element deriving all its capital from the credit of its constituents and its managing ability from their directorate and the Burma Provincial Bank was a corporation with a strong infusion of outside share capital and direct relations with a large number of primary societies and reduced the central banks almost to the status of branches or agents of the Provincial Bank. "Both these Provincial Banks came to grief and have been revived only at the cost of serious financial sacrifices made by the Governments concerned. They failed because they represented two different types of a centralized banking organization under which the connexion between the apex bank and its constituents is so close and intimate that defects and faults in one part of the structure react on the whole bringing the entire structure to grief."* The Provincial Bank and central banks should act as independent units "so that each party may feel a sense of responsibility without getting a chance to cover its faults and mistakes by taking refuge behind the other."

Fourthly, the system of close supervision of societies by local unions assisted by central banks as it has lately developed in the Province depends so much upon the central banks that any disturbance at this stage would upset the arrangements for local supervision of which the societies are admittedly in great need. To devise a satisfactory scheme of supervision of village societies on a provincial scale seems to us to be beyond the range of practical politics. Fifthly, the rectification and reorganization of societies on the pattern we have contemplated in our report require

* The Bihar and Orissa Co-operative Committee (1931–32).

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the services of local organizations such as central banks in greater measure than hithertofore and of an increasing band of local honorary men, which one can hardly secure by the proposed change. Sixthly, central banks have been formed all over the Province and have been in existence for about 30 years now; they have, on the whole, done well and weathered through all storms. It is hardly necessary for us to point out in this connexion the frequency of joint stock bank failures and the banking crises which overtook this country during the last 30 years. In Madras, during the nine years ended 1936, there were 54 bank failures, the annual average being six. Co-operators in the Province may take a pardonable pride in the fact that on the whole the district co-operative central banks have stood the test of times for about 30 years now and that not one district central bank crashed during the period. We are aware of the liquidation of the Madras Christian Central Bank, but it stands on a different footing and it is not necessary for us now to go into the causes which led to its liquidation. We have briefly referred to them elsewhere. The central financing organizations, which have survived the prolonged world-wide agricultural and economic depression in recent years, must have some intrinsic vitality and would, with the continuance of sound management and direction, survive, we believe, similar agricultural and economic crises in the future, too. Seventhly, even the European practice and experience are in favour of two financial storeys in co-operative structure. In fact, we find that in a recent report to the League of Nations on systems of agricultural credit, M. Louis Tardy recommends that agricultural credit institutions should be of three classes—local associations of farmers (primary village credit societies), registered associations, grouping the local associations together (corresponding to district central banks) and one central organization in each country or territory (corresponding to the Provincial Bank).

To sum up, the central banks in Madras are a valuable feature of the co-operative movement; they certainly have been one of the factors which have enabled the Province to emerge out of the depression with much less damage than several sister Provinces and we are not prepared to sacrifice them for the sake of an academic theory.

One of our members (Sri K. Bhashyam) favours the trial of the amalgamation scheme as an experiment in a few select areas. We prefer to leave well alone.

District Co-operative Central Banks versus small Central Banks (Taluk Banking Unions).

243. As a general rule, there is one central bank for each revenue district in the Province. Vizagapatam, Kistna and Tanjore however, have each two central banks, and the East Godavari four central banks. The field of operations of the Madura-Ramnad Central Bank extends to the whole of Madura district and a portion of Ramnad, the rest of Ramnad district being served by the

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Srivilliputtur Central Bank. The Coimbatore Central Bank serves both Coimbatore and Nilgiris districts. The Kistna Central Bank has jurisdiction over four of the taluks of Kistna district and the Bhimavaram taluk of the West Godavari district.

The question has been raised whether the existing central financing organizations, one for each revenue district, should continue or whether they should be split up into small units (taluk banking unions as they have come to be popularly known) operating over a limited area. This question has recently attracted public attention with the publication of the Statutory Report and Bulletin No. I of the Reserve Bank of India. The Reserve Bank's point is that owing to the increase in the number of societies the work of central banks has become unwieldy, that the co-operative character of banks is tending to become slender and that in such cases even if central banks are retained, societies might be grouped into banking unions consisting of primary rural societies and discharge all the functions of financing, supervision and education. The Reserve Bank has however, made it clear that its intention is not that district central banks should be scrapped and replaced by banking unions. What it is more concerned with is that the functions of financing, education and supervision should be performed efficiently, that if central banks as at present constituted are found fit to exercise them, it is, in its opinion, so much the better; that in some cases it may be necessary to retain the central bank as the financing and co-ordinating agency for the banking union within its area, and that where banking unions are formed for taking up rural financing, the central bank can take up the functions of a co-operative urban bank.

We have given the matter careful thought and are inclined to feel that the existence of more than one central bank in a district is more an inconvenience than an advantage. It may prove to be a source of weakness to the movement and may not be conducive to financial stability. A central bank operating over a district ensures economy of overhead charges, secures the money required at reasonable rates of interest, offers cheaper services to its constituent societies, exercises adequate control over credit policy, provides a large field for selection of men for management and tends to reduce opportunities for concentration or monopoly of power in a fewer hands.

It is hardly possible for small banks to employ experienced and well-paid staff the need for which in a financing organization is self-evident. It is contended that if societies are reorganized on a multiple-purpose basis banking unions would possibly earn greater profits than the central banks and would be able to maintain an efficient staff. Multiple-purpose societies are yet to come and while we have advocated their formation, we suggest with all respect to the Reserve Bank, that we must not count the rupees that the multiple-purpose chicken are going to earn for us even before the eggs are hatched. To some people " multiple-purpose "

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seems to be like that blessed word, " Mesopotamia ", the sovereign cure for all co-operative ills. We, for our part, prefer to view it in a spirit of chastened optimism. We are afraid that however much the business of a banking union may develop, owing to the reaction of general debt relief measures and a general reduction of interest rates, banking organizations cannot expect to have the same big margins in their borrowing and lending rates as in the past, with which to maintain an efficient staff and to finance supervision and education. A central bank operating over a wide area can make a greater profit over a large turnover with narrow margins than a banking union can expect to do. The Reserve Bank suggests that if a banking union is not able to pay its way in the beginning, it can legitimately depend on Government subsidies. We do not think that such subsidies can at all be justified.

Nor are we sure that banking unions will inspire confidence in would-be depositors. It may be that in the peculiar local conditions in which the Panjawar and Kodinar Banking Unions are placed, they have been able to tap local resources. But we are not sanguine from what we know of the conditions in this Province that they would be able to command the necessary confidence and attract money in the required degree. We expect in future financing organizations to take a larger share in the movement and marketing of crops and to encourage, stimulate and finance co-operative societies for crafts and cottage industries. Both the intensive and extensive programme of co-operative endeavour in the coming years would require large funds which we are justified in holding that banking unions cannot secure. In the alternative, such small institutions would have to offer higher rates, which means the cost of credit to the ultimate borrower becomes very dear—a prospect which no one would welcome.

We are not here greatly concerned with the risks of banking unions overfinancing societies or showing undue leniency in recoveries. Much depends upon management but as directors will be drawn from a very limited area, local considerations are likely to play a larger part in the conduct of business than would be the case if the field of operations is wider. The existing central banks have established themselves firmly and have, on the whole, served the Province well; and we feel there are advantages in working up the existing financing organizations. We deprecate tampering with a sound system just because a different system is reported to have worked well elsewhere.

One central bank for one revenue district.

244. We are of the opinion that the principle of co-operative central banks being constituted for large areas on the basis of one central bank for one revenue district is sound and should be adhered to. Having regard, however, to the history of central banks in this Province, we suggest that they should be allowed to continue to function as financing banks for societies constituted in

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their present respective areas if local conditions and opinion require it; but this shall be without prejudice to any scheme of amalgamation where local co-operative opinion favours such amalgamation.

Elimination of individual shareholders from the constitution of central banks.

245. Co-operative central banks in this Province are of a mixed type, consisting of both individual and society members. Though it was realized at the outset that the ideal form of co-operative banking organization would be the one in which shareholders would be the borrowing societies only, it was then felt that a bank composed entirely of borrowers might not command the full confidence of the investing public particularly if the members and directors who were the borrowers, were village agriculturists with no experience or knowledge of banking and that the system of combining the ryot-borrower with the more sophisticated townsman with a knowledge of affairs was a much more satisfactory arrangement.

Society members predominate in the constitution of central banks. In most central banks directors representing individual shareholders are elected by the *full* general body of societies and individual members. The number of individual directors on boards of management of banks has been limited generally to one-third of their total strength. The Madras (Townsend) Committee on Co-operation (1927) considered the question of the total elimination of individual shareholders from central banks and recorded that the evidence they received was almost unanimous against such elimination " in the near future " and recommended that no further steps should be taken in this direction for some time to come. They suggested further that a fresh inquiry would be necessary before the resumption of such a policy was considered, and that it should include an examination of the success or otherwise of the total elimination of individual shareholders in other provinces or countries where it had taken place, combined with the conditions existing, and the relations of co-operative to commercial institutions in such provinces or countries.

Though individual shareholders were necessary in the early stages of the movement it is for consideration whether the time has not now come for the elimination of the outside element. There are, amongst the representatives of rural and urban societies, men with shrewd commonsense, knowledge and capacity for management of central banks. In point of fact, representatives of constituent societies are in a majority on the management of banks and it is their views that influence decisions. Individual directors being in a minority cannot—always barring exceptions —make themselves felt in the administration of banks; if they assert themselves as against the collective wishes of society representatives, it would give room to mutual friction and irritation. Furthermore, individual shareholdres have no special interest in

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the affairs of the bank to safeguard and hence need no special representation. Nor are we convinced of the argument that individual members place at the disposal of central banks their knowledge of banking; they are not expert bankers themselves; they are, so to say, amateurs. In view of the increasing volume and variety of banking business, almost all central banks have appointed paid secretaries with banking qualifications who attend to the day-to-day work in banks. The need therefore of experts on the boards of management of central banks does not arise. In consideration of these facts, the majority of us are of the opinion that the time has come for the elimination from central banks of individual shareholders so as to make them pure type banking unions composed only of affiliated societies and that such elimination will make the federal structure of the credit movement more co-operative in character. We also consider that the reasons for divorcing finance from supervision which were urged in the past on account of the mixed constitution of central banks would disappear with the proposed change.

Co-optation of individuals with co-operative or banking experience to the boards of management of central banks.

246. We are aware that this proposal has provoked protests from certain quarters mainly on the ground that such elimination would shake the confidence of the depositing public in central banks. Such apprehensions seem to us groundless. The confidence of creditors would depend upon the general financial condition of central banks, the reputation they have established for themselves in the money market, the soundness of their investments in societies and other relevant factors, not so much upon the presence of individual shareholders on their management. In order, however, to give central banks an opportunity to avail themselves of the services of public-spirited individuals who possess expert knowledge in co-operative banking or co-operation or whose presence in the management will prove helpful, we recommend that central banks should co-opt three individuals to their boards of management and provide for such co-optation in their by-laws. We further recommend that the co-opted members should have the same rights and privileges as the elected members of the board.

Elimination of individuals opposed by minority.

Sri K. Bhashyam is opposed to both the recommendations for the elimination of individual shareholders and their co-optation in the manner suggested. He is of the opinion that in order to infuse confidence of the public in co-operative organizations, to induce them to invest largely in such institutions and to utilize to the full the honorary services of non-official workers in the movement, the strength of individual shareholders should be increased to at least one-third and that a third of the strength of the executive committee and managing board should be reserved for them. A minority of the members of the committee are in agreement

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with this proposition. The individual shareholders have done service in the past by way of securing deposits for the banks and exercising a steadying influence on the conduct of their affairs. They have supplied capable men for the responsible posts of presidents of banks; they have provided a wholesome corrective to the borrowing element represented by the delegates of societies. Such local men of influence are needed in an increasing measure particularly in view of our proposals for the reorganization and expansion of the movement and the consequent need for larger funds in the immediate future. The minority are not convinced that they have proved to be a hindrance to the progress of the movement. Even if there be some occasional friction between them and the representatives of societies, they are not sure that there is enough evidence to conclude that such friction is general or widespread. On the contrary, their experience is that individual directors have accommodated themselves to the needs of the changing times and have generally taken representatives of societies along with them in matters of policy or administration of central banks by their powers of persuasion and reasonableness. Above all as the committee has not elicited public or co-operative opinion on this question specifically the minority hesitate to recommend the elimination of individuals in the absence of any imperative need or a general desire for such reform. They are inclined to think that this question requires a much more thorough enquiry in the manner suggested by the Townsend Committee than it has received at our hands. They do not therefore see their way to support these recommendations.

Co-optation of depositors on the board of management of central banks negatived.

247. Sri K. Bhashyam also suggests that an option should be given to central banks to co-opt a small number of depositors on the managing board with or without votes. We are not convinced of the soundness of the proposal. For one thing, we should hesitate to create special or vested interests in central banks. For another, we find that no occasion has so far arisen for special representation of depositors. We cannot recommend the suggestion for acceptance.

Deposit policy of central banks satisfactory.

248. We now proceed to consider whether any change is necessary in the existing system of borrowings and investments and lendings by central banks. Central banks have served well their essential purpose of tapping local deposits and making the funds available for primary societies which are in need of them. As against their total outside liabilities amounting to Rs. 463 lakhs on 30th June 1939, Rs. 383 lakhs (i.e., 82 per cent) represent the deposits held by them. These deposits work out to 67 per cent of their total working capital (Rs. 566 lakhs) and their total share capital and reserves (Rs. 114 lakhs) work out to 30 per cent of their deposits as against 21·3 per cent in the case of Non-Scheduled

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Banks and 12·8 per cent in the case of Scheduled Banks (as on 31st December 1938). Furthermore, nearly a fourth (Rs. 142 lakhs) of the total assets of central banks (Rs. 588 lakhs) is in the form of liquid assets and represents 38 per cent of total deposits held by them (as against 32·3 per cent in respect of Non-Scheduled Banks as on the 31st December 1938).

Under a convention between the Provincial Bank and the central banks, the latter till January 1940, were receiving deposits at a rate of one half per cent less than the lending rate of the former, but due presumably to the financial conditions created by the war, the convention has been altered and central banks can now accept deposits at the same rate as the lending rate of the Provincial Bank. During the years immediately following 1921 when the Government permitted the investment of surplus funds by local bodies in co-operative central banks, the latter received deposits with a degree of liberality which was not evidently justified by their business requirements but the restraints imposed on the receipt of local bodies' money soon after the surpluses in central banks manifested themselves had the desired effect. But the recent orders of the Government regarding the investment of funds by local boards have begun to have a marked reaction on the deposit position of central banks generally and to this we will revert later. On the whole we are satisfied that the policy hitherto pursued by central banks as regards their deposits is fairly satisfactory.

General position as regards period of deposits (and loans and investments).

249. The bulk of deposits of central banks is for short periods extending to two years. The only long-period money lying with them is the share capital and reserve fund deposits of constituent societies. An analysis of deposits of all kinds including reserve fund deposits with central banks shows that the percentage of short-term to total deposits, while varying from bank to bank, is higher than the percentage of either intermediate or long-period deposits (exclusive of deposits within the movement and of deposits on current and savings bank account and recurring and provident fund deposits). A classification of other deposits held by central banks shows that for the quarter ended 30th June 1939, while Rs. 97·62 lakhs were due for payment within the first twelve months, the amount payable in the next twelve months (a period of two years) was 37·89 lakhs. The amount payable in the third year was Rs. 17·89 lakhs and in subsequent years Rs. 9·84 lakhs.

On an analysis of the statistics supplied by central banks, we find that in about half the number of central banks the proportion of short-term loans to societies exceeds 60 per cent of their total loans and other investments and that the percentage of medium-term loans to total loans and other investments is high (over 60 per cent)

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in half a dozen banks (Hospet, Kurnool, Malabar, Salem, Trichinopoly and Chicacole Central Banks). The proportion of short-term borrowings to intermediate loans shows variations in about six banks (Chittoor, Kurnool, Conjeeveram, Salem, Trichinopoly and Malabar Central Banks); we notice that in these banks short-term loans constitute a small proportion of short-term borrowings. On the whole we find that no difficulty has so far been experienced by central banks in financing their constituent societies for their short and medium-term needs from deposits taken by them.

Should the period of deposits be conterminous with the period of loans ?

250. We may, however, consider the question as to whether central banks will not be well advised to encourage deposits for somewhat longer periods. We have recommended that the period of medium-term loans may normally extend to five years and in *exceptional* cases to seven years. But it is not necessary to invite deposits for as long a period. For one thing, medium-term loans are an essential feature of agricultural credit and cannot be given up entirely; their proportion, however, to short-term or total advances would generally be small. For another, while we appreciate the orthodox banking principle that banking institutions should employ short-term deposits in short-term advances and loans and that for relatively long-term transactions they should employ only such funds as they can rely upon holding for a period at least as long, we consider that there is hardly any need—nor is it possible in a going concern—to make the period of deposits conterminous with the period of loans with mathematical exactitude. The flow of deposits into central banks—unless any extraordinary or unforeseen banking crisis arises—is something like a perennial stream; old deposits will be renewed or returned and fresh deposits will be coming in. It is all a continual process and it is difficult to attempt to secure a close approximation between the term of deposits and the term of loans; it is hardly possible or necessary to link up the two with any degree of fineness. Even in commercial banking the border line between long-term and short-term finance is somewhat less determinate than might be imagined. For instance, if a customer deposits his savings in a bank and the bank uses that money to buy securities, it is arguable that the bank is no more than one of the many channels through which the savings are invested in securities; this holds good when money is borrowed from a bank to finance the purchase of securities. Again, a banker often lends short-period money to finance, say, the construction of a factory or the purchase of new capital equipment. The banker satisfies himself that the borrower is about to raise new long-term capital and when that capital is raised, the loan is repaid. In the meantime, however, it is again an open question whether the bank is not acting as a channel for the direction of savings into new investments. Government finance provides another example. It is permissible to ask what the difference is between a three-month treasury bill which is continually renewed and a short-term or

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medium-term Government loan. All that can be said is that the holder of the bill has the right to repayment every time the bill matures, but so long as the Government credit remains good and money remains plentiful, the holder is not likely to exercise that right but if he does, some other provider of short-period finance will take his place. The ways in which a banker exercises his power to grant short or medium period finances are a matter for his judgment and experience though bank finance, in essence, remains short-term finance.*

Encouragement of deposits for one to three years.

251. We are conscious that the Reserve Bank would insist upon the observance by central banks of strict principles of commercial banking and the limiting of the period of short-term loans to nine months and that of medium-term loans to two or three years. We have already discussed the question at some length while referring to the credit policy of primary agricultural societies and have recorded our opinion that short-term and medium-term (normally five-year) loans should be dispensed by them and long-term loans by land mortgage banks. In order then that central banks may be in a position to supply the medium-term capital required by their constituent societies and that they may continue to fill up the necessary gap between the purely short-term finance and long-term mortgage credit, we suggest that they will be well-advised to encourage deposits for one to three years and to place themselves in possession of adequate funds for this purpose in addition to their share capital and reserve funds invested in them by primary societies. We are confident that the further strengthening of the movement as a result of reconstruction of societies will ensure more regular flow of deposits into central banks.

We are aware in this connexion of the suggestion of the Reserve Bank of India that a co-operative bank should not, as a rule, accept deposits for periods longer than a year or two at the most, as long-term deposits make it difficult for a bank to adjust its interest rates in accordance with the fluctuations in the money market and are a source of great embarrassment in times of falling rates. We fully appreciate the advice. In view, however, of our recommendation that central banks should also advance medium-term loans extending normally to five years and of the fact that some of their investments in societies have, owing to depression and other causes, got rather sticky, it is necessary that they should strengthen their medium-term resources. It is not that central banks have resources

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* See the lecture on "Short period finance" by Mr. R. A. Wilson reproduced in the "Journal of the Indian Institute of Bankers"—July 1939.

The following extract from "Co-operative Banking" by N. Barou may also be of interest :—

> "The real danger is twofold. The Bank may be either too timid and, by holding its resources in too liquid a condition, not use them properly in the interest of its co-operative and labour clients, or it may run after profits and, by granting credit for operations of doubtful security or for an undefined period, jeopardize its financial stability. Both dangers could be avoided by a proper policy."

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exclusively of long duration and that they do not adjust their interest rates in accordance with the fluctuations in the money market. Our experience of the working of central banks in the Province is that they have been as far as possible regulating deposit rates to suit the changing conditions in the money market, and as a general rule, do not offer unduly high rates. We expect that if central banks carefully space out their deposits according to their requirements, from one to three years, the law of averages will operate against any undue burden of high interest rates on them and that they may not find it difficult to adjust interest rates from time to time agreeably to money market conditions.

Investment of funds by local bodies in central banks—General survey and present position.

252. The policy of the Government as regards investment of deposits by local boards and municipalities in central banks needs examination. It is hardly necessary for us to refer in great detail to the history of this policy. The central banks were, for the first time, permitted to accept fixed deposits from local boards and municipalities in 1921, and in 1926 local bodies were permitted to run current accounts with central banks. Later on, it was found that the banks took more money from local bodies than they could profitably use in their business. A competitive spirit manifested itself among banks which began to canvas for deposits from local bodies outside their own jurisdiction. To check this tendency, no central bank was permitted to accept deposits from local bodies outside its own jurisdiction without the consent of the central bank concerned and a maximum limit of four times their paid-up share capital and reserve fund was fixed for the total amount of deposits that could be accepted by any bank. The Government also fixed the maximum limit up to which each class of local bodies might invest funds in central banks. Owing to glut of their money in central banks in 1933, local bodies were directed not to make any fresh fixed deposits in central banks, and not to renew old fixed deposits, except with the previous sanction of the Registrar. The Registrar was also authorized to fix a maximum limit beyond which local bodies should not lodge their funds with central banks in current accounts. In 1936, however, the restrictions were slightly relaxed and Government permitted all central banks to accept deposits from local bodies as well as security deposits subject to certain conditions. Towards the close of that year, Government laid down that the total amount of fixed deposits to be held by each bank should be fixed at a limit not exceeding its paid-up share capital. But owing to the agitation carried on by central banks, this limit was relaxed and the Registrar was empowered to raise it for individual banks to any amount not exceeding twice the paid-up share capital and to relax the limit in the case of individual deposits subject to certain conditions. Last year the Government reviewed the position and imposed fresh restrictions on local bodies in this matter. The Government have directed all local boards and municipalities to close

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their current accounts with central banks (other than current accounts from municipal councils with the Madras Provincial Co-operative Bank) and to transfer the balance of their accounts to the Government treasuries. With regard to other funds such as provident fund, railway cess fund, endowment funds and water and drainage fund, the Government have directed that they should be invested in Madras Government securities and securities guaranteed by the Madras Government as to payment of interest and repayment of principal, non-terminable loans of the Central Government, fixed deposits for periods of one to three years in the Madras Provincial Co-operative Bank and central co-operative banks approved by the Registrar and post office savings bank deposits. The Government have further ordered that local bodies investments should be made in Madras Government securities and securities guaranteed by them except when there are special reasons for considering that it will be more advantageous to invest in one of the other permissible forms.

Withdrawal of recent Government Order regarding investment of deposits of local bodies recommended.

We are afraid that these fresh restrictions would have a serious reaction on the deposit position of central banks. We find that in recent years owing to the restraints imposed—which in the earlier years were found necessary to check surpluses—there has been a gradual fall in the local bodies' investments in central banks and the recent orders of the Government would tend to worsen the position. We find that in the year 1925–26, central banks held deposits of local bodies amounting to Rs. 102·88 lakhs and represented about 26 per cent of their total working capital. In 1930–31, the deposits exceeded Rs. 140 lakhs but since then there has been a steady fall; on the last day of each of the three years 1936–37, 1937–38 and 1938–39, the total deposits of local bodies held by central banks were Rs. 47·9 lakhs, Rs. 48·27 lakhs and Rs. 46·44 lakhs respectively. On 30th June 1939, these deposits worked out to about 8 per cent of the total working capital of central banks as against 26 per cent on 30th June 1926. The position needs in our opinion to be re-examined immediately by the Government. With the reorganization and expansion of the co-operative movement on the lines recommended by us, central banks will be in need of large funds to finance the movement and for this, they should have as many sources as possible from which they can obtain deposits. Local bodies have been of great service to central banks in this regard in the past and should be permitted to be of use to them in the future. Their money is in effect people's money collected locally by local self-governing institutions, and it can be profitably utilized for financing agricultural industry by co-operative banks at favourable rates; we see no reason why central banks should be prevented from making use of that money. We are strongly of opinion that the present restrictions on this subject are fraught with serious consequences to co-operative central banks and recommend that the Government Order imposing these restrictions may be withdrawn.

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Grant of loans by Provincial Bank for return of deposits permitted in exceptional cases.

253. In our opinion, central banks should rely on their own resources for the return of deposits on due dates and should not ordinarily apply for loans from the Provincial Bank for this purpose. We, however, recommend that when exceptional circumstances arise, which justify such a course, the Provincial Bank may also lend to central banks for the return of deposits by them.

Exclusion of advances to sale or marketing societies from maximum borrowing power of central banks.

254. Under the rules in force, the borrowings of central banks should be limited to ten times their owned capital (paid-up share capital and reserve fund). The MacLagan Committee suggested that the deposit liabilities of co-operative central banks should not ordinarily exceed eight to ten times their paid-up share capital and reserves. The proportion of "owned capital" to borrowings of central banks was originally fixed at one to eight. The Ninth Conference of Registrars of Co-operative Societies (1926) recommended that the maximum borrowing capacity of central banks and provincial banks might be raised to twelve times their owned capital. So far as Madras was concerned, the limit was raised to ten times in the case of central banks and to twelve times in the case of the Madras Provincial Bank. In actual practice, the percentage of the "owned capital" of central banks to their total deposit liabilities is much higher than this. On 30th June 1939, the total owned capital of all central banks in the Province was Rs. 83·33 lakhs, while deposits from all sources and loans from the Provincial Bank held by them amounted to Rs. 452·03 lakhs, the percentage of owned capital to total borrowings being 18, as against the prescribed percentage of 10. We do not consider that any change is called for in the existing practice.

It was however represented to us that if the advances made by central banks to sale or marketing societies against produce was taken into account for purposes of the determination of maximum liabilities, it would hit the banks hard and disable them from financing the increasing number of marketing societies adequately. We expect to see an extension of co-operative marketing in the immediate future, an increase in the number of marketing societies and volume of their business alike, and central banks should be equipped to finance them in the required measure. We appreciate the hardship pointed out and recommend that when advances are made against such visible security as agricultural produce (which is insured) and the custody of it is in the joint names of marketing societies and central banks, the money advanced by central banks to marketing societies should not be taken into account in arriving at their maximum borrowing power fixed at ten times their owned capital (share capital and reserve fund).

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Continuance of existing allocation of net profits to reserve funds.

255. The Reserve Bank has suggested that all co-operative organizations should carry at least one-third of their net profits annually to the reserve fund until it equals the paid-up share capital and thereafter at least one-fourth of the net profits. We appreciate the need for central banks to build up large reserves in order that they may better be able to withstand the effects of bad seasons or an economic crisis of the kind from the effects of which we are hardly yet out. In accordance with the rules in force, central banks in the Province carry at least one-fourth of their net profits to the reserve fund. In addition, many banks have provision in their by-laws to set aside a fixed percentage of their net profits for bad debt reserves. In point of fact, for some years now, the Registrar, under the powers vested in him by the rules, has been setting aside towards bad debt reserves reasonable amounts before net profits are declared by him. On the whole, the position appears satisfactory. The reserves (statutory reserve fund and bad debt reserves) of central banks on 30th June 1939 totalled Rs. 53·86 lakhs as against their paid-up capital of Rs. 49·53 lakhs. Exclusive of bad debt reserves, the statutory reserve funds alone amounted to Rs. 33·89 lakhs, working out to 68 per cent of their paid-up capital. We do not see any need now for a change in the existing proportion of allocation of net profits towards reserve funds. It may be stated in this connexion that non-scheduled banks are required to transfer at least 20 per cent of their net profits to the reserve fund till it equals the paid-up capital as against 25 per cent in co-operative banks.

No change in the present mode of investment of reserve funds called for.

256. Under the arrangements in force in this Province, the reserve funds of primary societies are invested in central banks; the latter invest their reserve funds partly in the Madras Provincial Co-operative Bank, and partly in Government paper or the debentures of the Central Land Mortgage Bank (up to one-half of their total reserve fund) and the Provincial Bank invests its reserve fund in Government securities. There are two extreme views in regard to this matter. One is that the reserve funds of societies may be invested in their own business. The objective is that societies should stand on their own legs without any outside assistance and that this is possible only if they can build up their own capital sufficient for their own needs; and one way of enabling them to reach a stage of self-sufficiency is to permit the utilization of reserve funds in their own business. Another view is that societies should invest their reserve funds outside their own business, preferably in redeemable Government securities. The practice as regards the investment of reserve funds is not uniform in the different British Indian Provinces in India.

The Reserve Bank of India suggests that it is not a wise policy for primary societies to invest reserve funds in central banks as is

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now done in Madras, because it apprehends that, at a time of crisis, all co-operative institutions will be similarly affected and that there may be a simultaneous demand from all societies for withdrawals of these funds to meet emergencies, with the result that the central banks may be subjected to a strain which it may be too severe for them to bear. The Reserve Bank suggests that the best course would be to allow primary societies to use the funds in their own business, so that the building up of their own funds may be speeded up and they may become self-sufficient earlier than would be the case otherwise. The Reserve Bank also considers that in case such funds are necessarily to be invested in central banks, it should be done only on the condition that the latter re-invest them in Government securities as if they were trustees and that they should not, under any circumstances, use these investments for their own needs. So far as central banks themselves are concerned, the Reserve Bank is of the opinion that their reserve funds should be invested outside the movement in unencumbered trustee securities except mortgages of immovable property.

It may be stated that in ordinary commercial banking, a certain reserve is always kept outside the business and it matters little whether this reserve is kept from the reserve fund or the general funds. In fact, reserve funds represent the surplus assets or the margin between the assets and liabilities of the society and so long as this margin is reasonable, the society's interests will not ordinarily be affected, unless there are big frauds. Again, primary societies cannot withdraw their reserve funds invested in central banks without the previous sanction of the Registrar and that, too, only if it is to meet unforeseen losses; even then, due notice of withdrawal has to be given by the societies concerned. In view of the fact that reserve funds can be withdrawn only to meet unforeseen losses, the question of a simultaneous demand by societies for withdrawal of reserve funds to meet emergencies does not arise. The present mode of investment is a compromise between two extremes—investing reserve funds outside the movement in Government paper and utilizing them in the business of societies. We, in Madras, pursue a middle course by investing the reserve funds of primary societies in central banks and those of central banks partly in Government paper or in the debentures of the Central Land Mortgage Bank and partly in the Provincial Bank, and any reserve fund in excess of 20 per cent of the working capital of societies and banks can be permitted to be used in their business. If societies or central banks invest their reserves in Government securities, the money will not be available for the movement, as they cannot raise any credit against such investments. Further, Government securities are always subject to fluctuations, and there is risk of loss on account of possible depreciation. There is no evidence in favour of a change in the existing arrangements. We, therefore, recommend that the present mode of investment of reserve funds of societies and central banks may be continued.

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Provision for, and write-off of bad debts.

257. We note that immediately after the depression set in, co-operative central banks have taken stock of their investments in societies and ascertained their bad and doubtful debts and have been making provision for bad debt reserves year after year. We need hardly emphasize the importance of such periodical stock-taking and recommend that it should be continued and bad debts ascertained and declared as such every year before net profits are declared and apportionments are made from them. We also suggest that bad debts which have been definitely ascertained and which cannot be expected to be recovered even when agricultural conditions improve should be written off every year and necessary adjustments made to reduce bad debt reserve and reserve fund at least once in three years with the approval of the Registrar.

The suggestion of the Reserve Bank that at least 75 per cent of debts due from societies under liquidation, 50 per cent of debts due from " D class " societies and 25 per cent from " C class " societies should be treated as bad and doubtful debts under present conditions does not commend itself to us, as such treatment appears too mechanical. We are satisfied with the present method of classification of loans by actual enquiries with reference to security, repaying power and other circumstances of debtors and would only add that the classification must be done with greater care.

Exhibition of overdues and extended loans in balance sheets.

258. We appreciate the Reserve Bank of India's suggestion that the overdues, both of principal and interest, should be set out in the balance sheets, so as to present a true picture of the condition of central banks. We find that the Madras Provincial Co-operative Bank is exhibiting the overdues in its balance sheets in the form suggested by the Reserve Bank of India for the last two years and suggest that all central banks also do this in future through a suitable revision of the forms of their balance sheets. We further suggest that the loans extended may also be shown separately in the balance sheets.

Present standard and form of liquid assets maintained by central banks.

259. According to the rules and instructions in force, central banks in this Province have to maintain fluid resources in the following proportions :—

(i) Full amount of fixed deposits matured and not claimed;
(ii) full amount of recurring and provident fund deposits which matured for payment;
(iii) 50 per cent of fixed deposits falling due within the next thirty days;
(iv) 50 per cent of current deposits;
(v) 25 per cent of savings deposits; and
(vi) 50 per cent of the amount of cash credits allowed to other societies as cover for deposits in them.

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(In the case of the Madras Provincial Co-operative Bank, the proportions are the same as those for central banks except for current deposits, for which the bank has to maintain 40 per cent of fluid resource.)

The fluid resources may be maintained in any or all of the following forms :—

(i) Cash balance on hand and with the bank;
(ii) Amount deposited in the post office savings bank, which is readily withdrawable without notice.
(iii) The entire purchase value of the post office cash certificates held by the bank.
(iv) Undrawn cash-credit with the Imperial Bank of India.
(v) Government promissory notes—80 per cent of the market value (as quoted in daily papers and unencumbered).
(vi) Debentures of the Madras Co-operative Central Land Mortgage Bank purchased by the bank out of its general funds.
The bank is permitted to reckon these debentures for the purpose of fluid resource up to a limit of one-third of the standard required to be maintained by it, the debentures being taken at 80 per cent of their market value.
(vii) The undrawn portion of cash-credit allowed by the Madras Provincial Co-operative Bank.

Suggestions of the Reserve Bank of India as regards standard of liquid assets considered.

The Reserve Bank of India has suggested that provincial and co-operative central banks should advance loans to about 50 to 55 per cent of their deposits and invest the remaining assets in cash and gilt-edged securities. The following ratios have been suggested for consideration :—

	Percentage of deposits.
Cash, cheques in course of collection and balances with other banks	10
Investment in Government securities and treasury bills	30 to 40
Loans and advances	50 to 55

The Reserve Bank has further suggested that central banks should hold at least 25 per cent of their fixed deposits, 30 per cent of their savings accounts and 35 per cent of their current accounts in the form of Government securities. We agree in general terms in the necessity of co-operative banks adopting methods designed to ensure liquidity of their assets as far as is compatible with the nature of their business but we are not disposed to accept the distribution of assets and standard of Government securities recommended by them. It is true that whereas commercial banks finance trade and industry, co-operative societies make advances

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mainly to agriculturists. It is also the case that the agricultural cycle is longer than the commercial. But then co-operative banks are generally alive to their obligations to meet their demand and time liabilities punctually and to maintain adequate liquid assets on the standards prescribed to meet these obligations and their primary duty to satisfy the credit requirements of their constituent societies. It must be realized that there is much less elasticity in the financial operations of central banks. For one thing, there are no facilities for the negotiation and discounting of agricultural paper held by them. Secondly, their borrowing power is strictly proportioned to their owned capital. Thirdly, vicissitudes of season and consequent defaults in repayments by borrowers have a greater reaction on the finances of co-operative banks than of joint stock banks. Fourthly, central banks have to supply the needs of a very large body of small cultivators who need accommodation through primary credit societies. Thus, the economic and financial environment in which central banks carry on their business is different from that in which commercial banks operate. In effect, the Reserve Bank's prescription of the ratio in which the funds are to be kept or invested would practically cripple the business and working of central banks. In fact we notice on an examination of the position that the surpluses of fluid resources in many of the central banks on the basis of present standards will convert themselves into deficits and their present loan business will have to be seriously curtailed, if the standards prescribed by the Reserve Bank are to be observed. We cannot, in this connexion, overlook the fact that agricultural industry is in need of credit at as reasonable rates of interest as possible. So far as Madras is concerned, the maximum rate of interest on loans to agriculturists is now regulated by legislative enactment and at the time is fixed at $6\frac{1}{4}$ per cent. The average borrowing rate of central banks is $3\frac{1}{2}$ per cent, their average lending rate is 5 per cent; and if central banks are to adhere to the ratio suggested by the Reserve Bank, we are afraid that most banks cannot pay their way or meet their working expenses even taking into account the yield on their owned funds, the varying rates of interest on their deposits or nominal interest rates on current accounts, much less can they afford to pay a modest dividend to their shareholders; nor can any addition be made to their statutory reserve funds.

We are aware that these proportions have been suggested purely from considerations of safety. But the Reserve Bank admits that however soundly a bank may be conducted, there may be a run on it on account of outside causes and concedes also that no bank can ever pay off its liabilities immediately if there is a run on it, but that it must conduct its business in such a way that it can make arrangements for meeting all demands within a reasonable time. If there be really a run, it will be impossible for central banks to meet the entire demands of creditors either immediately or within "a reasonable time." What may be considered "a

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reasonable time " in respect of commercial banks cannot be so regarded in the case of co-operative central banks. While the former lend only for a period of three to six months, central banks lend for longer periods. And while the securities held by the former can be easily realized, it is impossible for central banks to do so either on a large scale or within a reasonable time. The nature of operations of co-operative and commercial banks materially differs, and when there is a general run, even higher standards than those now maintained by co-operative banks cannot stand them in good stead. If any central bank is temporarily in need of fluid capital, it may owing to the federal structure of co-operative banking in the Province, look for help to the Provincial Bank, provided, of course, its general financial position is good.

Furthermore, the Reserve Bank concedes that the standards suggested by it are normal ones and they do not prevent co-operative banks from granting larger loans in times of emergency by borrowing against their Government securities. When the securities are thus encumbered, their liquidity is vitiated and the purpose in view is defeated.

Continuance of the present standard and form of fluid resource recommended.

The standard of fluid resources prescribed by the Government and in vogue for long in this Province has, in practice, been found satisfactory and not disabled the central banks, which have maintained it, from meeting their obligations to their depositors or has brought them to grief. There is hardly anything in past experience to suggest the necessity for a change in the present standard. In point of fact we find on an examination of the position, that on 30th June 1939 central banks had to maintain fluid resources to the extent of Rs. 33·97 lakhs as cover for deposits from individuals and institutions other than co-operative societies according to the present standard as against which they had resources amounting to Rs. 64·55 lakhs, which was composed of as follows :—

	RS. LAKHS.	PER CENT.
(a) cash on hand, Post office savings bank deposits and cash certificates	20·54	31·8
(b) undrawn cash credit with the Imperial Bank direct.	22·30	34·5
(c) undrawn cash credit with the Madras Provincial Bank obtained on the security of Government paper, fixed deposits and the debentures of the Central Land Mortgage Bank.	11·20	17·4
(d) 80 per cent of the market value of Government paper.	6·35	9·8
(e) 80 per cent of the market value of the debentures of the Madras Central Land Mortgage Bank purchased out of general funds up to a limit of one-third of the fluid resources required to be maintained.	4·16	6·5
Total ..	64·55	100·0

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In other words, the total resources are comprised entirely of cash, gilt-edged securities and cash credit obtained against Government paper or deposits or debentures. We find the position quite satisfactory and do not consider that any change is called for either in the standard or form of fluid assets to be maintained by central banks *.

Inclusion of cash credit given by the Madras Provincial Bank against co-operative paper as part of fluid resource for outside liabilities.

260. We find that the rules require a distinction to be made between liabilities due to the *outside* public and those due to *co-operative* societies, that the undrawn portion of cash credit given to central banks by the Madras Provincial Co-operative Bank on securities other than co-operative paper (pro-notes executed by primary societies in favour of central banks) has been permitted to be reckoned as fluid resource for purposes of meeting *outside* liabilities as well as *inside* liabilities (i.e., cash credits allowed to co-operative societies as cover for deposits) and that the overdraft granted to central banks by the Provincial Bank on the security of co-operative paper can be counted against fluid resource for the inside liabilities only. On 30th June 1939 the central banks had an overdraft of Rs. 14·10 lakhs from the Provincial Bank on the pledge of co-operative paper and even without this overdraft, central banks are, on the whole, self-contained and self-supporting in the matter of fluid resources; in fact, their resources on 30th June 1939 exclusive of the overdraft given by the Madras Provincial Bank were more than enough for payment both of outside liabilities and inside liabilities (the latter being only Rs. 5·11 lakhs). This is, however, no reason why the overdraft against co-operative paper should not be permitted to be included for purposes of fluid resources for *inside* liabilities also. The Provincial Bank maintains resources according to prescribed standards in respect of cash credits granted by it to central banks, whatever may be the nature of security offered by them—whether they be the pro-notes of rural societies, the debentures of the Central Land Mortgage Bank, fixed deposits or Government paper. The Provincial Bank's own overdraft with the Imperial Bank of India is fully secured by Government promissory-notes. On 30th June 1939, the Provincial Bank had in fact an overdraft accommodation of Rs. 37 lakhs with the Imperial Bank of India on the security of Government paper. Its investment in Government promissory notes on the same date amounted to Rs. 126 lakhs. Its liquid position is therefore very strong and there is no reason to feel sceptical about the Provincial Bank failing to meet its obligations to central banks, so long as the latter offer eligible

* The XIII Conference of Registrars of Co-operative Societies (1939), passed the following resolution :—

"The scale of fluid resources fixed for each province should be reviewed in the light of the distribution of working capital as suggested by the Reserve Bank and the results to be put before the next conference. In any case, the scale of fluid resources prescribed by the appropriate authority should be strictly adhered to."

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co-operative paper as security for accommodation given to them. "The central banks which really own the Provincial Bank, have more than a moral claim to the enjoyment of facilities for cash credit" from that bank whether it be for outside or inside liabilities.

Further, it may be recalled that the MacLagan Committee recognized undrawn cash credits with the Provincial (and Presidency) Banks as part of the fluid resource and its view was supported by the previous Madras Committee on Co-operation. The reasons, in its opinion, are mainly twofold. First, the margins available for income are too low to permit a large portion of the capital of co-operative banks being invested on unremunerative terms and that instead of these margins expanding, there would be a tendency for them to contract with the development of the movement. Secondly, it was recognized that the rigidity of the co-operative finance arising from the nature of the securities on which advances were made by the co-operative banks was such as not to permit of those securities being readily accepted and easily converted into cash in the commercial banking world and that if the undrawn cash credit with the Provincial Bank (and the Imperial Bank) was excluded from fluid resource and central banks were compelled to maintain fluid resources only in cash and redeemable Government securities, it would appreciably diminish the profits of the central banks. It was also felt that the cost of maintaining fluid resource only in cash and Government securities would have to be ultimately borne by the primary credit societies which form the bulk of shareholders in the central banks and that this burden would fall on them, either in the shape of diminution of dividends or by way of loading the rate of interest at which they borrowed from the central banks. In either case, the available profits of primary societies, which are the lowest as compared with those in other provinces of India, will be still further reduced. This will be a serious menace to the movement. We may add that these reasons still hold good. We, therefore, recommend that the cash credits given by the Madras Provincial Co-operative Bank to central banks on co-operative paper should also be included for purposes of fluid resource for their *outside* liabilities also.

Credit policy of central banks—Grant of short-term and medium-term loans.

261. We have already discussed at some length the loan policy of primary agricultural credit co-operatives and recommended that they should dispense only short-term and medium-term credits to their members and that long-term (mortgage) credit should be dispensed by land mortgage banks. It is not necessary for us to go over the ground once again. We may simply state that in keeping with the policy of primary societies, central banks also should confine their transactions to short-term and medium-term loans, that the medium-term loans may run normally for five years and in *exceptional* cases, from five to seven years and that *in no case*

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should they extend beyond seven years. Loans for periods above seven years for genuine long-term purposes should be given by land mortgage banks through flotation of debentures for ten or fifteen years according to requirements. We note that some of the central banks have been attempting in actual practice to work out the policy we have outlined. We wish that they speed up the execution of that policy.

Grant of credits by central banks to be confined to societies.

262. A suggestion has been made that presumably following the practice in Bombay central banks may lend to individuals direct on tangible securities such as gold and silver or agricultural produce and industrial products, at least during the period which intervenes between now and the time when the Province will be covered with a net-work of co-operative organizations, and that, if it is not possible to make advances to *all* individuals, whether members of affiliated societies or outsiders, central banks may at least grant credits to such of them as cannot get accommodation from local societies of which they are members on production of a certificate as to the inability of local societies to finance them. We have given the matter careful consideration. In the first place, a co-operative central bank is a bank of bankers and is intended to finance primary societies, and not individuals. Secondly, the proposed extension of activities of central banks would encroach upon the sphere of operations of primary societies and curtail their business and probably lead, in some areas, to their extinction. Thirdly, in cases of default central banks would be driven to civil courts for the realization of debts due to them from outsiders, as the Registrar has no power to decide disputes touching their business in relation to outsiders. Fourthly, the financing of individuals direct by central banks may bring them into competition with established business firms and is likely to provoke opposition to these new forms of their activities. Primary co-operative societies alone should undertake to finance individuals direct. We are, therefore, opposed to the suggestion and consider that central banks should lend only to affiliated societies and not to individuals. The central banks may however make advances to their constituents against their time deposits.

Construction of godowns by central banks for promoting agricultural marketing.

263. The Government have been encouraging marketing societies (loan and sale societies) to build godowns in suitable market centres by grant of subsidies and long-term loans at 3½ per cent interest. Up to 1st January 1940, only 12 sale societies took advantage of these concessions and constructed godowns. We feel that the progress has been slow mainly because sale societies do not own adequate resources to supplement the Government subsidy.

There is a general inadequacy of storage or godown facilities in many of the districts. It is true that railway companies, local bodies or marketing committees formed under the Madras Commercial Crops Markets Act may be thought of for the provision of

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suitable godown accommodation in important market centres, but apart from the question of time involved in the matter, there is also need for the efforts of these agencies being supplemented by co-operative organizations. We therefore consider that it will be advantageous for the Government to give subsides and loans to central banks on suitable conditions to enable them to construct godowns and maintain them for the benefit of village societies and agricultural marketing societies. It may be stated that in Bombay many central banks have built their own godowns where agriculturists can store their produce and can have the benefit of favourable prices. We are aware of the objection that it is undesirable for a central bank to own real estate or godowns which would detract from the fluidity of its resources. What we have suggested, however, is that a bank should not tie up its own funds in godowns but that it might build them from a long-period loan taken from the Government for the purpose, so that it may repay it from its annual profits.

The creation of facilities for storage by central banks may ultimately lead to the promotion of agricultural warrants or warehouse receipts, that is to say, certificates of ownership of produce deposited in godowns where it is kept in good condition. We have recommended, while dealing with marketing societies, that they should issue warehouse receipts and that these certificates should be made negotiable under guarantee of Government or central banks. The warehouse receipt is a useful instrument to finance the holding up of stock with a view to orderly marketing and the provision of godown facilities by central banks may prove to be a step preliminary to the creation and popularization of warehouse certificates.

Creation of safe custody department in central banks and re-pledge of gold by societies.

264. We have suggested that deserving agricultural credit societies may be permitted by the Registrar to make advances against gold and silver subject to the same terms and conditions as are now followed by those urban banks which deal in this kind of business. With an extension of business in this direction, village societies and urban banks may feel the need for greater financial accommodation and look to central banks for help. We recommend that central banks may be permitted to develop a safe custody department and to take a re-pledge of gold and jewels against which village societies or urban banks have made advances to their members.

Financing of societies for cottage industries.

265. Central banks have not interested themselves in financing societies designed to promote small-scale cottage industries. We have separately dealt with the question of the future organization of cottage industries on co-operative lines and suggested that central banks should finance such societies more or less on the same

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lines that the financing of weavers' societies is proposed to be made. We desire to see central banks interesting themselves in all co-operative activities in their field of operations and provided suitable safeguards are devised to protect their interests, they should finance societies intended for cottage industrialists or artisans.

Need for provision for central banks proceeding against individual members of primary societies in cases of neglect by the latter.

266. Many of the primary societies do not take prompt action against defaulters, and this is adduced as one of the reasons for the overdues in societies. In cases of neglect of duties by the panchayats of primary societies, central banks should be in a position to step in and enforce the obligations which the members owe to their societies. We suggest that central banks may be empowered to proceed against individual members of societies if the panchayats neglect to recover the dues and that for this purpose, legislative provision on the following lines be made :—

(1) A financing bank may direct the committee of a registered society which is in default to it to take action against the members who are in default in respect of sums which have become due to it and if the committee neglects or fails to do so, the financing bank may itself take such action.

(2) Where such action is taken by the financing bank, the provisions of the Act and of any rules made thereunder or by-laws of the society shall apply in respect thereto as if all references to the society or its committee in the said provisions or references were references to the financing bank.

(3) Where a financing bank has obtained a decree or award against a registered society in respect of sums due from the society, the financing bank may proceed for the recovery of such sums firstly from the property of the society and secondly, from the members of the society to the extent of the loans overdue by such members to the society concerned.

Transactions in modern banking business by central banks suggested.

267. Some of the central banks in the Province have been carrying on one or more of the items of modern banking business, such as collection of bills or drafts—discounting is not done—transfer or remittance of funds through issue of cheques on other banks, collection of insurance premia on behalf of insurance companies, grant of loans or cash credit against debentures of the Central Land Mortgage Bank, Government securities, shares of the Reserve Bank of India, or the Imperial Bank, purchase and sale of gilt-edged securities, etc. Central Banks (and urban banks) in

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other British Indian Provinces are also doing several kinds of modern banking business, and we recommend that central banks in the Province may continue or take up banking business of the kind described.

Closer contact with commercial banks recommended.

The Reserve Bank of India has suggested the need for closer contact and mutual understanding between co-operative and commercial banks, for better use by co-operative banks of commercial banks of standing for the investment of their surplus funds as well as for getting credit from them on Government paper, and for utilization of co-operative banks by commercial banks for the collection of bills, etc., in places where they have no branches of their own. Commercial banks and co-operative central banks in the Province have already mutual relations in some form or other; some of the central banks have overdraft accounts with the Imperial Bank of India against Government paper; some others have current accounts or fixed deposits with commercial banks; central banks also arrange for the collection of bills and drafts sent to them by the commercial banks; a few commercial banks have opened current accounts and fewer still have placed fixed deposits in central banks. We have no doubt that with the extension of their business, central banks will make greater use of the services of commercial banks of standing for transmission of funds, collection of bills or cheques on behalf of their customers; but we would suggest a standardization of charges by mutual agreement for services rendered in this regard either by co-operative banks or commercial banks.

Continuance of free transfer of funds for bona fide co-operative transactions recommended.

268. In this connexion we have considered the question of the further continuance of facilities for the remittance of funds for *bona fide* co-operative transactions through remittance transfer receipts. With the introduction of Provincial Autonomy, each Provincial Government is at liberty to prescribe the circumstances in which remittance transfer receipts may be brought into use. The Reserve Bank holds that such facilities which the authorities give should be regarded as a concession and objects on principle to the continuance of the concessions mainly for the reason that these concessions date from a time before the institution of the Imperial Bank and the existence of cheap remittance facilities. If the Provincial Government wish to continue the concession of free remittance to co-operative banks or institutions for *bona fide* co-operative purposes, the Government should pay the Reserve Bank commission on such remittances.

We have considered this question and are disposed to recommend that in view of a general reduction in the lending rates of co-operative organizations and the low margins on which they are

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working the existing concession of free remittance of funds for *bona fide* co-operative transactions should be continued by the Government and that for non-co-operative transactions, co-operative banks may be charged the same rates as those charged to scheduled banks for remittances made by them in favour of third parties.

Over-capitalization-adjustment of share capital of societies towards loans due by them.

269. The by-laws of central banks prescribe that no member shall, at any time, be permitted to withdraw any share or shares held by him (it) provided that, with the sanction of the Registrar, any member-society may withdraw the whole of its shares at any time for the purpose of affiliating itself to another central bank or when it is liquidated. In recent years, however, owing to a shrinkage in their loan business, some of the banks have found themselves overcapitalized and provision has been made for adjustment, subject to the sanction of the Registrar, towards principal of any loan or loans due by them to the banks of any portion of their share capital in excess of what their members have paid to them. We consider that where central banks find that they are overcapitalized and such adjustment is necessary for the revival of dormant societies they may adhere to the present practice.

Abolition of preferential shares and preferential dividend suggested.

270. In view of our recommendation for the elimination of individual shareholders from central banks, we find no justification for the existence of preferential shares and payment of preferential dividend which are prevailing in some of the central banks and suggest that they may be done away with. Central banks may buy out shares of individual members or transfer them to existing societies or societies to be formed in the immediate future.

The Madras Provincial Co-operative Bank—Its position in co-operative banking structure.

271. We have already traced the history of the origin and development of the Madras Provincial Co-operative Bank. Originally started for financing primary societies scattered all over the Province, it gradually developed and transformed itself into an *apex* bank, confining its operations to its constituent banks. It has admirably served its purpose as a balancing centre or clearing house and as a financing agency. It controls the rate of interest at which constituent central banks borrow and lend, and by virtue of its position it has secured the direction of co-operative finance in the Province. By its position in the money market, it has tapped deposits and served the needs of banks adequately; it is in a position to provide cash credit facilities to its constituent central banks against gilt-edged securities, fixed deposits or co-operative paper; it takes the balances of central banks

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which are surplus to their requirements. In recent years, it has interested itself in the development of agricultural marketing (sale) societies and given subsidies to central banks to enable them to extend support to sale societies working in their area of operations. It has also made liberal contributions from the common good fund to the Madras Provincial Co-operative Union to further co-operative education of members and panchayatdars of societies in the districts and has given subsidies to central banks for the work of rectification of societies. On 30th June 1939 its paid-up share capital exceeded Rs. 6·5 lakhs and its reserve fund Rs. 17·5 lakhs. Its total outside liabilities were Rs. 202 lakhs. It had an overdraft accommodation of Rs. 37 lakhs with the Imperial Bank of India against Government paper. Its liquid assets by way of investments in gilt-edged securities were Rs. 125 lakhs. We are satisfied with the eminently sound financial position of the Provincial Bank and have confidence that it will perform the new tasks which will be imposed upon it by the co-operative planning outlined in our report.

Co-optation of five individuals to Board of Management of Provincial Bank.

272. We were at first disposed to retain an element of individual shareholders in the constitution of the Provincial Bank but on reconsideration we felt that there was no need for their retention. We however recommend by a majority that the general body of the bank should co-opt to its Board of Management five persons with experience in co-operation and banking.

We are not in favour of the suggestion for special representation of depositors and commercial bankers on the Board of Management of the Provincial Bank. It is in our opinion neither necessary nor desirable.

Separate apex banks for the Telugu and Tamil districts proposed.

273. The question has been raised as to whether the Madras Provincial Co-operative Bank should continue in its present form and operate over the whole of the Province or whether it can be bifurcated. It is well known that there is an influential section of public opinion in the country which desires a territorial redistribution or rearrangement of British Indian Provinces on a linguistic basis for a fuller economic and cultural development of the people and for administrative convenience. We are not here concerned with the several political, financial or administrative issues involved in the proposal for such redistribution of Provinces. The agricultural and economic conditions of the people vary in different parts of the Province. A rigid uniformity in co-operative theory and practice over such a large territory as this Province is not conducive to the free and natural growth of the movement, and alterations in co-operative banking methodology or structure headed by the Provincial Bank in its present form so as to permit of such natural growth are not easy without disturbance to all its component

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parts. Finally, the intensive co-operative development which we would like to see acclerated in the immediate future may prove far too much for a single Provincial Bank to promote and foster.

We, therefore, consider that the best interests of the co-operative movement will be served by having two separate apex banks, one for the Andhra districts and the other for the Tamil districts working under the Registrar of the Province and having their headquarters in the City of Madras with the option for Malabar and South Kanara to determine their own affiliation.

One of our members (Sri K. Bhashyam) has suggested caution and would like us to hasten slowly. He apprehends that the existence of two Provincial Co-operative Banks may lead to conflict of interests in the money market and that their development may thereby be jeopardized. We feel that his apprehensions are not well founded because the position of the banks would depend upon their management and the confidence which they would inspire in the investing public, and provided the two banks pursue sound banking methods and conduct their affairs properly, we see no reason why they should not flourish side by side, and prove to be of service to their respective constituent central banks and to the movement in their area of operations.

One of our members (Sri R. Suryanarayana Rao) is not in favour of the bifurcation of the Madras Provincial Co-operative Bank though he would concede the need for regional banks for well-defined portions of the Province with similar agricultural and economic conditions. He is also of the view that in the constitution of a separate provincial bank for the Andhra districts, the interests of the Ceded districts would not receive adequate attention or representation and that the Andhras of the Circars would dominate the bank. He, therefore, suggests that the Ceded districts or the Rayalaseema might be given the option to seek its own affiliation.

Sri J. Sivashanmugam Pillai would like that the headquarters of the Provincial Bank to be formed for the Andhra districts should not be in the City of Madras.

The majority of us have considered both these suggestions and are not prepared to support them.

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CHAPTER IX.—CO-OPERATIVE MARKETING SOCIETIES.

The problem of marketing.

274. We notice an increasing appreciation in recent years of the disabilities from which the ryots suffer owing to a lack of satisfactory arrangements for the marketing of their produce. The Royal Commission on Agriculture in India put the position briefly: "The prosperity of the agriculturists and the success of any policy of general agricultural improvement depend to a very large degree on the facilities which the agricultural community has at its disposal for marketing to the best advantage such of the produce as is surplus to its own requirements." It has also been realized that the problem of marketing is complicated and has to be attacked on more fronts than one. Before we proceed to suggest the general lines of co-operative organization of agricultural produce, it is well that we describe briefly, for a proper appreciation of the subject the area under different crops, the export and import trade of the Province and the present marketing conditions.

Area under crops and exports and imports.

275. The total area under all crops in the Province exceeds 36 million acres, the percentage of the area of food crops and non-food crops being roughly 72 (26·6 million acres) and 28 (10·3 million acres), respectively of the total area in 1937–38. For the decade ended 1937–38 we find from the index numbers furnished in chapter XIII of the report that the area under cereals and pulses has been gradually falling since 1932–33, while the area under cotton has been steadily increasing at the same time excepting in 1936–37. No pronounced rise is noticeable in the case of groundnut or tobacco, though in 1937–38 a sharp rise in acreage was in evidence in both crops. As regards sugarcane there was a steady increase in acreage up to 1934–35; thereafter there was a setback which resulted in a sharp diminution in 1937–38. On the whole it may be said that there has been a fairly steady rise in the total acreage of important commercial crops in recent years.

So far as imports and exports are concerned, the total annual value of the sea-borne trade (imports plus exports) averaged Rs. 8,164 lakhs during the decade ended 1937–38, imports accounting for Rs. 3,932 lakhs and exports accounting for Rs. 4,232 lakhs; the corresponding figure for the previous decade Rs. 8,187 lakhs is made up of Rs. 3,757 lakhs on account of imports and Rs. 4,430 lakhs on account of exports. Paddy and rice, cotton piece-goods, skin and hides and rubber manufacture show a surplus of imports over exports; the commodities which showed a surplus of exports over imports in the order of magnitude are groundnut,

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tea, skin (tanned), hides (tanned), cotton raw, tobacco raw, cashewnuts and kernels, rubber raw, coffee, tobacco manufactures, copra, coconut oil, castor seed and raw wool. It may be stated that so far as paddy and rice are concerned the question is only one of internal market, while so far as commercial crops are concerned, the problem is one of export.

Survey of present marketing conditions by the Provincial Marketing staff.

276. In purusance of a suggestion made by the Royal Commission on Agriculture, detailed surveys with a view to formulate measures for orderly marketing have been conducted in the last few years of important commodities like rice, tobacco, groundnut, fruits (like bananas, grapes, pineapples, oranges, etc.), potatoes, ghee and butter, coconut, sugar and linseed.

(a) Assembling and distribution.

The surveys show that the agencies in the chain of marketing from the producer to the manufacturer and consumer depend upon the nature of the crop. In paddy, for example, the produce usually passes through the village merchants directly to the mill or wholesaler in the assembling centre; from the mill, the rice passes to the wholesaler in the consuming market and generally one or more retailers. Between the wholesaler or miller at the producing end, and the wholesaler at the consuming end, brokers often intervene and execute orders on the strength of samples. In some cases the miller is situated at the consuming end (for example, Tanjore paddy sold in the Coimbatore district). The agencies employed in the distribution of rice and paddy in this Province are shown in the diagram on page 245.

In groundnut the route taken comprises the grower, the village merchant, the broker, the decorticating merchant, the exporter's agent and finally the exporter. Again, in tobacco (excepting cigarette manufacturers who have established their own purchasing depots in the growing areas) many intermediaries intervene between the producer and the assembling markets (e.g., chewing tobacco in the Coimbatore district). In fruits, again, the chain extends from a grower (landlord or tenant) to a contractor, the commission agent at the consuming end, or a retailer or hawker and the consumer.

The number, extent and nature of operations of the agencies between the grower and the consumer vary not only with the commodity, but within each commodity, according to the variety. For instance, the main crop of mango is handled by a different set of agencies from those operating on the off-season crop. Similarly the *sirumani* rice of Tanjore district follows an entirely different route from the coarse rice. Conditions also vary according as the produce is intended for export, manufacture or internal consumption.

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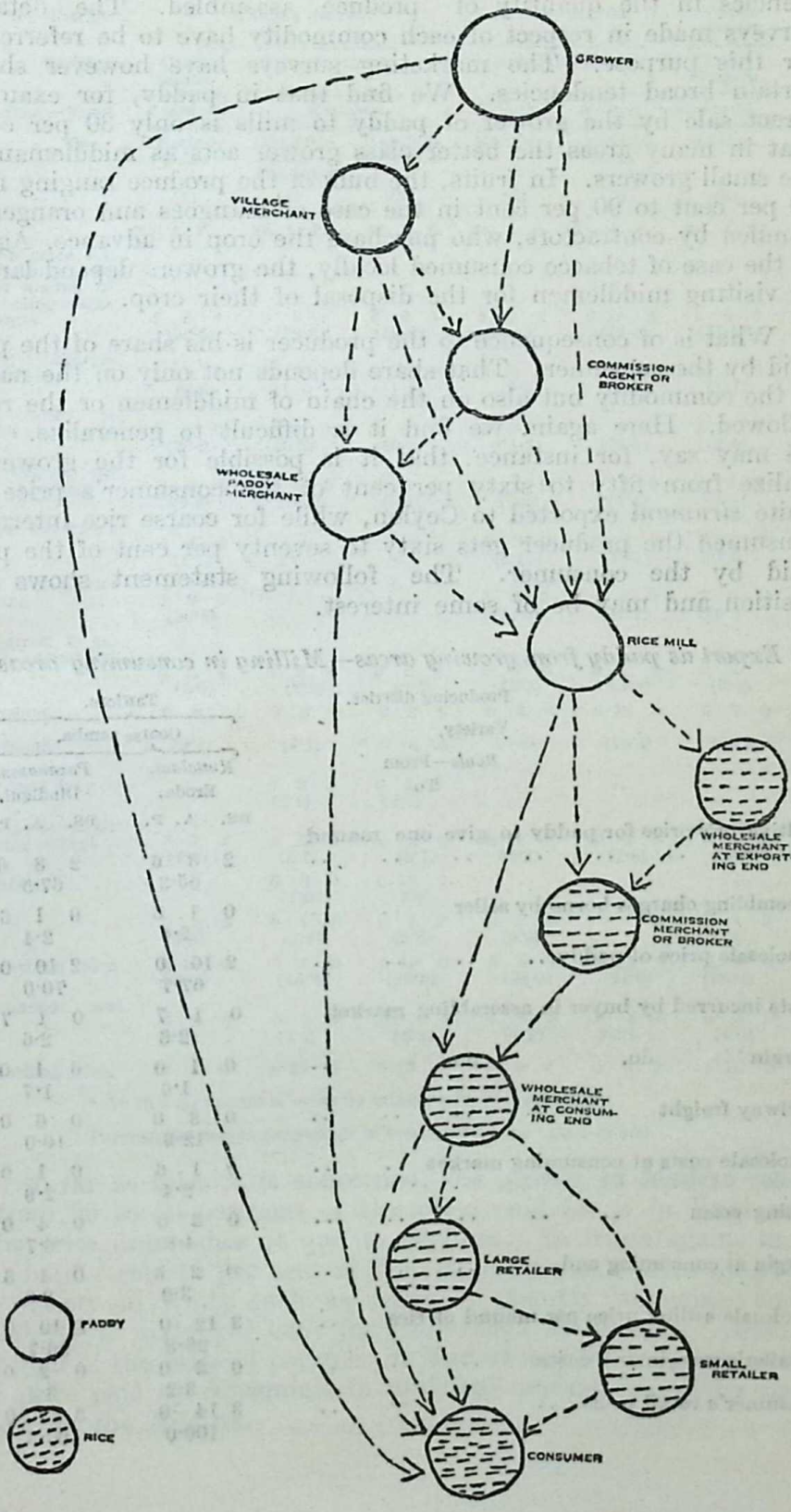
Steps in the movements of paddy and rice from grower to consumer.



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It is difficult for us to generalize about the share of the several agencies in the quantity of produce assembled. The detailed surveys made in respect of each commodity have to be referred to for this purpose. The marketing surveys have however shown certain broad tendencies. We find that in paddy, for example, direct sale by the grower of paddy to mills is only 30 per cent; that in many areas the better class grower acts as middleman for the small growers. In fruits, the bulk of the produce ranging from 80 per cent to 90 per cent in the case of mangoes and oranges, is handled by contractors, who purchase the crop in advance. Again, in the case of tobacco consumed locally, the growers depend largely on visiting middlemen for the disposal of their crop.

What is of consequence to the producer is his share of the price paid by the consumer. That share depends not only on the nature of the commodity but also on the chain of middlemen or the route followed. Here again, we find it is difficult to generalize. But we may say, for instance, that it is possible for the grower to realize from fifty to sixty per cent of the consumer's price for white *sirumani* exported to Ceylon, while for coarse rice internally consumed the producer gets sixty to seventy per cent of the price paid by the consumer. The following statement shows the position and may be of some interest.

Export as paddy from growing areas—Milling in consuming areas.

Producing district.	Tanjore.	
Variety,	Coarse samba.	
Route—From	*Kuttalam.*	*Pavanasam.*
To	Erode.	Dindigul.
	RS. A. P.	RS. A. P.
Cultivator's price for paddy to give one maund of rice	2 8 6 65·3	2 8 6 67·5
Assembling charges borne by seller	0 1 6 2·4	0 1 6 2·4
Wholesale price of paddy	2 10 0 67·7	2 10 0 70·0
Costs incurred by buyer in assembling market.	0 1 7 2·6	0 1 7 2·6
Margin do. do. ..	0 1 0 1·6	0 1 0 1·7
Railway freight	0 8 0 12·9	0 6 0 10·0
Wholesale costs at consuming market	0 1 6 2·4	0 1 9 2·9
Milling costs	0 3 0 4·8	0 4 0 6·7
Margin at consuming end	0 2 5 3·9	0 1 8 2·8
Wholesale selling price per maund of rice ..	3 12 0 96·8	3 10 0 96·7
Retailer's margin and costs	0 2 0 3·2	0 2 0 3·3
Consumer's retail price	3 14 0 100·0	3 12 0 100·0

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Export as Rice from Assembling and Milling centres.

Assembling district.	*Tanjore district.*			*Nellore district.*		*Kistna district.*
Variety.	Coarse samba.	Sirumani.		Molagulukulu.		Delhi Bogam.
Route—From	*Kuttalam.*	*Kuttalam.*		*Nellore.*	*Nellore.*	*Bezwada.*
To	Trichinopoly.	Dhanushkodi Colombo.	Karaikal. Colombo.	Madras.	Coimbatore.	Madras.
	(3)	(4)	(5)	(6)	(7)	(8)
	Rs. A. P.	Rs. A. P.	Rs. A. P.	Rs. A. P.	Rs. A. P.	Rs. A. P.
Cultivator's price for paddy enough to give one maund of rice, including transport charges ..	2 8 6 (67·5)	3 6 6 (58·6)	3 6 6 (58·6)	3 15 2 (70·4)	3 15 2 (75·4)	3 6 0 (71·1)
Assembling charges borne by seller ..	0 1 6 (2·5)	0 I 6 (1·6)	0 1 6 (1·6)	0 0 10 (0·9)	0 0 10 (1·0)	0 1 0 (1·3)
Wholesale price of paddy for above ..	2 10 0 (70·0)	3 8 0 (60·2)	3 8 0 (60·2)	4 0 0 (71·3)	4 0 0 (75·4)	3 7 0 (72·4)
Cost of milling for above and boiling ..	0 5 6 (9·2)	0 5 0 (5·4)	0 5 0 (5·4)	0 2 0 (2·2)	0 2 0 (2·4)	0 3 0 (4·9)
Miller's or exporter's margin	0 1 0 (1·7)	..	..	0 2 9 (3·1)	0 2 9 (3·3)	0 2 3 (3·0)
Wholesale selling price per maund ..	3 0 6 (80·8)	..	..	4 4 9 (76·6)	4 4 9 (82·1)	3 13 0 (80·3)
Costs incurred in exporting assembling market	0 2 4 (3·9)	0 2 4 (2·5)	0 2 4 (2·5)	0 2 6 (2·8)	0 2 6 (3·8)	0 2 0 (2·6)
Railway freight ..	0 3 5	0 8 6	0 2 0	0 4 6	0 13 0	0 7 0
*Steamer freight ..	(5·7)	(9·1)	* 0 4 10 7·3	(5·0)	(15·4)	(9·2)
Export or local duty ..	..	0 2 3 (2·4)	0 2 9 (2·9)	..	..	..
Wholesale costs at the consuming market ..	0 1 6 (2·5)	0 2 6 (2·7)	0 2 6 (2·7)	0 2 0 (2·2)	0 1 6 (1·8)	0 1 9 (2·3)
Import duty	..	0 12 0 (12·9)	0 12 0 (12·9)	..	..	..
Margin	0 2 3 (3·8)	0 1 5 (1·5)	0 2 7 (2·8)	0 8 0 (8·9)	*	0 1 3 (1·6)
Wholesale selling price.	3 10 0 (96·7)	5 10 0 (96·8)	5 10 0 (96·8)	5 5 9 (95·5)	5 1 9 (97·6)	4 9 0 (96·0)
Retail margin and cost	0 2 0 (3·3)	0 3 0 (3·2)	0 3 0 (3·2)	0 4 0 (4·5)	0 2 0 (2·4)	0 3 0 (4·0)
Retailer's selling price.	3 12 0	5 13 0	5 13 0	5 9 9	5 3 9	4 12 0

* In this case profit is made by mixing with Rangoon rices.

Parentheses denote percentage of consumer's price taken as 100.

Again, so far as tobacco is concerned, the grower in Madras realizes from 30 to 50 per cent of the price paid for it in England and the price diminishes as quality declines. In fruits again, the grower hardly gets 10 per cent of the city consumer's price for the cheap variety of fruits such as pears or country mangoes, and about thirty to sixty per cent for fruits such as oranges. About 45 per cent of the price of potatoes in Madras and 50 or 55 per cent of the price paid by consumers in mufassal markets is got by the producer on the Nilgiris.

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by the Buckingham canal which is used for the transport of paddy, rice, salt, firewood and shells for lime. The canals in the Godavari and Kistna deltas are used for taking a vast amount of paddy to markets, ports and railway centres to be despatched to distant places, but they are not navigable all the year round. Railway freights are an important factor in the cost of marketing and require careful study and adjustment to facilitate marketing and the efficient distribution of agricultural produce.

(f) Preparation for marketing.

We need hardly state that the preparation for marketing is of great importance. Some of the problems involved in this are closely connected with the treatment of the produce on the field, particularly in respect of crops like tobacco, where harvest is to be done in stages, like fruits, where proper maturity before harvest is essential, and even paddy where more attention in the stage of cutting and threshing would improve the quality. The main difficulty in the preparation for market is however associated with some deliberate evil practices, such as, damping and adulteration. Damping is particularly common in such crops as groundnut, cotton or tamarind. In groundnut, large discounts are made when purchases are effected by middlemen from the grower on account of the moisture in the contents. Though damping is resorted to, to minimize breakage in shelling, it is also intended to secure increased weight. The practice of adulteration exists in certain crops. In groundnut, for instance, clay is added on within certain limits. Cleansing is not done properly in the case of many food-crops, or adulteration is deliberately done. Adulteration of rice, for instance, is mostly practised in order to pass off inferior varieties as superior ones, or, to make new rice appear as old, in view of the premium which the latter commands. Even imported cheap or broken rice is mixed up with local rice. These practices tend in the long run to prejudice the interests of the growers themselves, because the buyers either make considerable allowances in price or return the consignments. Further, these practices have also the effect of lowering the price of superior varieties of produce. If proper cleaning of produce is not done at the producing centres, it involves unnecessary transport of dirt and foreign matter from producing areas to consuming centres.

Need for comprehensive treatment of marketing problem.

277. We have stated the general features of marketing arrangements and practices in order to stress the complexity of the problem and the need for concerting measures to improve marketing conditions. The problem cannot be effectively solved co-operatively; it requires a much more comprehensive treatment; and some aspects of it are beyond the scope of our inquiry. We desire that attention should be focussed on all aspects of the matter, and before we proceed with the co-operative organization of marketing we would like in passing to refer to other remedial measures which have been taken or will have to be taken to improve marketing.

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Are the middlemen necessary?

278. We have described the long chain of middlemen who intervene between the producer and the (ultimate) consumer. It is not our intention to condemn the middlemen system altogether. We are aware that the middlemen perform certain essential economic functions; they have up to the present played an important part in the system of marketing and distribution. The point for consideration is whether the number of middlemen cannot be reduced. The ryots are small, isolated producers and have no touch with marketing or consuming centres. The number of agricultural holdings in the Province is about 5½ millions. The organization of ryots is rendered difficult by the large number of producing units. In the manufacturing industries, the number of units responsible for the bulk of output is relatively small. The middlemen's services cannot, therefore, be entirely eliminated. Some one has to undertake the collection of produce, grading, transportation, processing, storage, selling and delivery to the consumer. But economies are possible through combination of producers and co-ordination of numerous units of agricultural production.

Agriculturists combine together at the producing end, take over the local collection of produce, finance the holding up of it, grade it and pass it direct to the wholesaler in the consuming areas; they can supervise the handling of produce, obtain reductions in transport and insurance rates, improve quality and thus return to the producer his fair share of the consumer's rupee.

Measures needed to improve marketing services.

279. We consider then that in order to effect an improvement in the chain of assembling and distribution from the producer to the consumer, it is necessary to formulate measures in a number of directions :—

(1) Organization of producers' societies and linking them with consuming centres.
(2) Increased transport facilities and reduction in freights.
(3) Regulation of market conditions and practices by the establishment of regulated markets.
(4) Standardization of weights and measures.
(5) Standardization of grades in the several commodities.
(6) Dissemination of market intelligence, etc.

Transport—Railway freights and maintenance of canals.

280. We will deal with the organization of producers' societies at a later stage and will here briefly discuss the other measures mentioned. As regards railway freights we are informed that the railway companies concerned have reduced freight rates for transport of certain commodities both for internal trade as well as export. The commodities comprise plantains and mangoes exported to North India, cattle from and to Madras City, limes for internal trade and

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export, potatoes, pineapples, rice and paddy in regard to certain routes, etc. We are also informed that faster services have been provided on certain routes for export of fruits to North India. We suggest that railway rates should be studied by the marketing staff from time to time with reference to trade conditions and movement of different kinds of produce and that the need for regulating or reducing the freight rates should be periodically and forcefully impressed upon the railway authorities.

As regards canals, we recommend to Government the desirability of keeping the canals in an efficient condition.

Regulated markets.

281. The Madras Commercial Crops Markets Act (Act XX of 1933) has been designed to control and regulate market conditions, such as fixation of market charges, maintenance of market yards and standardization of market practices and to promote better marketing of produce. Market committees appointed under the Act, representing growers and the trade, control notified markets and the expenses of running regulated markets are met from a nominal levy on the commodity leaving the notified area. Regulated markets have been created at Tiruppur for cotton, in Guntur district and Bezwada taluk for tobacco, in South Arcot for groundnut, and in Adoni and Nandyal for cotton. The value of these regulated markets in the promotion of agricultural marketing needs hardly any emphasis. We recommend the early extension of the Act to other suitable areas.

Standardization and grading.

282. The market committees have power to fix agreed standards and draw up standard contract forms; but they do not appear to have exercised it so far. We understand that recently certain standard rates for cigarette-tobacco in Guntur have been drawn up and that tobacco was exported to England under standard grades and was favourably received. This is a line of reform which we wish to see extended to other varieties of produce such as groundnut, potatoes, rice and ghee.

The Agricultural Produce (Grading and Marking) Act of 1937 provides for organized dealings in agricultural commodities under proper standards of quality. We understand graded schedules have been drawn up for the more important commodities and authorization to deal in guaranteed " grades " has been given to people who undertake to do the grading. Grading stations have also been opened in centres like Tanjore, Nellore, Guntur, Madras and the Nilgiris for rice, tobacco, fruits, mangoes, oranges, potatoes and eggs. The produce is sealed, labelled and marked according to proper specification.

There are difficulties in the matter of pooling and grading, but provided uniform quality of produce is raised in fairly large areas and is available in large quantities through a combination of producers, it should be possible to overcome them and ensure large sales of graded produce. This will not only give higher prices,

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but will eventually lead to a reduction in the number of middlemen. The purchaser will be saved the expense of employing agents to inspect and value the produce.

Remedial measures for preventing damping and adulteration.

283. The remedy for preventing damping and adulteration lies in propaganda to educate the grower or the trade to deal in produce of good quality and in the fixing of limits of refraction or moisture and standardization of the produce. We learn that some of these lines of improvement have already been undertaken. We suggest an extensive propaganda in this matter be undertaken through co-operative societies and market committees by distribution of leaflets and talks to producers by the officers of the Agricultural department and marketing staff. By far however the most efficient remedy is in the hands of producers' organizations.

Dissemination of market intelligence.

284. We consider that better dissemination of market intelligence, that is market prices, stock-arrivals, etc., should be ensured to the producers and their organizations by all possible means such as rural broadcasting and posters in conspicuous places and in all markets.

Co-operative organization of producers—Loan and sale societies.

285. We have stated so far the general remedial measures designed to improve marketing methods and arrangements. But the most important line of attack of the problem of agricultural marketing is to organize the producer and to secure for him whatever economies are possible and thus to give him an increased share of the price paid by the consumer for his produce. The known practical and effective alternative to the middleman system is the co-operative organization of producers. As we have stated earlier, a number of loan and sale societies have already been started all over the Province in order to advance loans to members against their produce, to arrange for the sale of it to the best advantage, to rent or own godowns to facilitate the storage and sale of produce. During the year 1938–39 they advanced loans to members against produce to the extent of Rs. 95·86 lakhs, and of the stock worth Rs. 179·05 lakhs kept with them, they sold produce worth Rs. 45·87 lakhs on behalf of their members.

Reasons for slow progress in marketing and sale by loan and sale societies.

We notice that though in recent years there has been a great increase in the number and transactions of these societies, they have confined themselves in a large measure to the grant of loans against produce; they have not done much to promote *marketing* and *sale* of produce. We find that more than one reason has been assigned for this practically one-sided development of sale societies —high cost of transport charges, tight grip of middlemen over ryots on account of their prior indebtedness to them, want of adequate storage facilities and difficulties felt by sale societies in

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owning godowns, difficulties involved in, or lack of facilities, for pooling and grading, general dearth of business talent in the personnel of committees of management of sale societies and lack of trained businessmen even amongst paid employees of such societies, want of loyalty on the part of members to their societies, dependence of sale societies on local agents or markets for disposal of produce owing to very limited transactions, competition with long-established exporting firms, lack of contact between sale societies and big consuming centres and general ignorance about internal and external markets. We have already referred to the steps that have been taken by the Government and the departments concerned to remedy some of these defects and the directions in which further improvements are necessary in the present arrangements of marketing agricultural produce.

Conversion of loan and sale societies into " marketing " societies and concentration on marketing and sale.

286. We will now proceed to recommend the lines of future organization of loan and sale societies with a view to make them more useful and effective agencies of agricultural marketing. In our opinion, the existing loan and sale societies should be renamed *marketing societies* and they should concentrate their activities and attention rather on marketing and sale than on granting loans against produce. The small ryot suffers on account of forced sale of his produce in the threshing-floor on the village money-lender's statement of what the current price is at a time when it is notoriously low, measured by him with his measures, on his calculation of interest and it is these incidents which make a vast difference to the return for cultivation. This state of affairs is brought about by the fact that the small holder takes advances from the village money-lender or merchant and is obliged more often than not to sell his produce to him. He requires finance for cultivation purposes or for payment of kist or other purposes. It is at this stage that co-operative organizations can be of help to the ryot by enabling him to deposit his produce in their godowns, to obtain a loan to meet the pressing demands for payment and to sell it on the best terms which present themselves. We have already recommended that village credit societies should give short-term loans to members for purposes of cultivation, loans on standing crops and also against produce. The marketing societies may, however, make advances against commercial produce having concentrated markets and brought to them for sale.

Formation of marketing societies at taluk headquarters.

287. We suggest that marketing societies be formed at the headquarters of each taluk with branches in firkas. The formation of societies should be carefully planned and developed after a careful study of each crop and area. The headquarters taluk society and branches should arrange for the grading and sale of growers' produce, for the supply of improved seed, implements, etc., to

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members; that is to say, they should operate both as sales organizations and supply associations. They should deal directly with wholesale merchants and consuming markets for the sale of members' produce.

Extension of controlled credit.

288. We are of opinion that in order to stimulate marketing activities the system of controlled credit should be extended on a large scale and that loans be given for the supply of improved seed, implements, manure and work cattle by village credit societies on condition that the produce should be taken to marketing societies for sale. We have already referred to the system of controlled credit and the criticism that has been levelled against it. We will here only remark that the system may be extended wherever it can be conveniently done, but even in areas where it has not been or cannot be introduced, we see no reason why village societies should not induce their members either to take their produce to the nearest marketing society or its branch for sale, or itself arrange with the help of the sale society to sell the produce on behalf of its members.

Need for financial help to marketing societies.

289. We are aware that the Government have in recent years been encouraging the development and expansion of the activities of loan and sale societies in the Province and have sanctioned subject to certain conditions, the employment at State cost of junior inspectors (now called marketing inspectors) for the management of the more important of these societies and the payment to others of a small subsidy to enable them to employ the staff necessary in the initial stages to expand their business. The Government have also employed four agricultural demonstrators with headquarters at Bezwada, Madras, Trichinopoly and Coimbatore to work under the Provincial Marketing Officer to promote the marketing of agricultural commodities. We appreciate the help so far rendered and suggest that it may be extended to a larger number of societies formed or to be formed in the near future. We consider that in the initial stages these societies should be given subsidies towards meeting the cost of management and methods of processing, grading, packing, etc.

Promotion of storage facilities.

290. We have already referred in general terms to the question of storage facilities. The Government have been helping the sale societies with loans for the construction of godowns. Under the rules in force the Government make a free grant from the Government of India subvention placed at their disposal for rural uplift up to 25 per cent of the estimated cost of construction of godowns and the balance is given as loan at 3½ per cent repayable in thirty

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years, simple interest being payable during the first five years and thereafter the loan being repayable in 25 equated annual instalments. We, however, find that much headway has not been made by the sale societies in this direction and that on 1st January 1939 out of 128 societies, only 12 could build godowns while 33 more had proposals on hand. We are informed that many societies are not financially strong and cannot, under existing conditions, afford to meet three-fourths of the cost of construction as required under the rules and that in some cases difficulties are experienced by them in the purchase or acquisition of sites. We recommend that the Provincial Government should continue to give marketing societies subsidies of 25 per cent (or more if it can be justified in particular cases) even if the Government of India grant be discontinued and to advance them long-term loans for the balance, subject to the usual conditions. We have already recommended the grant of State loans to central banks to enable them to build godowns in suitable localities to provide storage facilities. As for primary credit societies, we suggest that in addition to long-term loans for construction of godowns, they should be given the usual 25 per cent free grant. We should like here to endorse the remarks of the Agricultural Marketing Adviser that the location and size of storage accommodation require careful study in each case, that convenience of situation is highly important and that examples may be given of storage accommodation being provided and not being used on account of bad siting.

Issue of warehouse receipts.

291. We suggest that marketing societies should be encouraged to issue to growers warehouse receipts on the pledge of produce stocked in their warehouses or godowns and that these certificates should be made negotiable under the guarantee of Government or of the central banks which finance marketing societies. These certificates make it possible for banks and marketing societies to expand the volume of loans for facilitating the disposal of produce. They constitute an important feature of agricultural credit machinery in some of the European countries. They are transferable by endorsement; they describe and give the estimated value of produce given as security for loans; they allow the owner of the produce, if temporarily short of money, to obtain the funds required providing the lenders with a first-class guarantee in the form of a real guarantee and without the necessity to sell the goods constituting the security.

Financing of marketing societies by central banks.

292. Co-operative central banks should as hitherto finance the taluk marketing societies, but the amount of loans advanced by central banks to marketing societies should not be taken into account in arriving at their maximum borrowing which is fixed at ten times their owned capital (namely, share capital and reserve fund). Loans to the ultimate borrower, i.e., the producer should

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not be advanced at a rate more than 1½ per cent above the rate at which the Madras Provincial Co-operative Bank lends to central banks.

Maximum individual limit of loans.

293. The question as to the maximum limit for loans advanced against produce to individual ryots has been raised for our consideration. We are of the opinion that there should be no maximum limits for loans on paddy and that for other crops, Rs. 5,000 should ordinarily be fixed as the maximum subject however to the sanction of the Registrar for any higher limit.

Grant of loans only to producers.

294. We consider that marketing societies should not be made use of by persons other than those who actually raise the crops. The by-laws should be strictly enforced in this regard, and only producers should be eligible for a loan upon the produce raised by them or on their lands.

Encouragement of marketing societies in zamindari areas.

295. In Chapter III we have referred to the difficulties involved in the organization of land mortgage banks in some of the zamindari areas, either because the lands have not been surveyed or because individual pattas have not been given to the ryots. In the absence of a proper record of rights, it is difficult to determine the title to land. We, however, think that marketing societies can be organized for advancing loans against produce and for the sale of it and recommend that the formation of such societies be encouraged for the benefit of the agriculturists in the zamindari areas.

Formation of single crop marketing societies at suitable market centres.

296. The marketing societies with which we have so far dealt are intended in a general way to provide facilities for the producers in areas where they have not yet been organized and where produce dealt with is only of local importance or intended for internal trade; they will be formed on a geographical basis and may handle more than one commodity produced in their area of operations. But in the case of commercial crops or crops intended for export like tobacco, groundnut, cotton, or special crops like potatoes, fruits, ghee, etc., which require careful or specialized handling and assembling and which present special marketing problems, we consider that special crop marketing societies of single crops, comprising all convenient areas of production, that is to say, societies on a commodity principle may be started at suitable market centres to provide facilities for the growers to market their produce. The functions of special crop marketing societies should, in our opinion, include marketing, storage, grading, packing, processing and sale, that is to say, all the processes involved for the better preparation of produce for near and distant markets should be attended to by the societies. It is important that they

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should have a large volume of business for economical operation. One of the reasons for the formation of a marketing or sale society is to reduce the costs of marketing and this is possible only if the society secures a large volume of business.

We may stress the point that special crop marketing societies should be started not on a geographical basis as the taluk marketing societies already referred to; the latter are more or less in the nature of general purposes societies; they may deal in all kinds of agricultural produce and are intended to help the ryots to effect economies in storage and holding up rather than processing and despatch of produce to distant markets. The special marketing societies which we contemplate on the other hand are concerned with more than one process in the scheme of marketing and have more than local or geographical interest. They should, therefore, be started only in areas of concentrated commercial production and important market centres to which the produce in the area is brought for sale. By way of illustration, we suggest below the type of market centres we have in view for the formation of special crop marketing societies :—

Name of commodity.	Districts where societies can be started.
Paddy and rice	Tanjore, East Godavari, West Godavari, Kistna and Nellore.
Groundnut	South Arcot, Kurnool, Guntur and Coimbatore.
Tobacco	Guntur, Kistna and East Godavari.
Pepper	Malabar.
Citrus fruits	Cuddapah.
Cardamums	Madura.
Mangoes	Chittoor, Vizagapatam, North Arcot, East Godavari and Salem.
Ghee	Guntur and Coimbatore.
Eggs	Malabar and Guntur.

Methods of work of special crop marketing societies.

297. We may briefly indicate the principles on which, in our opinion, special crop marketing societies should carry on their business :—

(1) These societies should not set out to earn dividends. They should set apart funds for a small reserve. They should make provision for payment of bonus out of profits to the producers in proportion to the kind and quality of produce delivered by them.

(2) As regards the grant of advances against produce, we suggest that this may be done in the usual manner; that is to say, loans may be advanced up to a fixed percentage of the market value of the produce brought and stored in the godowns of societies. Central banks should finance these societies subject to the usual conditions and safeguards.

(3) The societies should be empowered to arrange for erection of godowns, processing plants, grading establishment, etc.,

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for the better storage and preparation of produce for the market.

(4) The need for expert and competent technical staff for attending to grading, processing and sale needs hardly any emphasis, as much depends upon the staff and their competence to manage the affairs satisfactorily.

(5) The members of special crop marketing societies should be encouraged to grade and to pool their produce; otherwise, it is difficult for them to undertake large business on a commercial scale. We have already referred to this matter. A beginning has been made in the grading of potatoes, fruits, eggs and ghee, and with education of the producers and a realization by them of the advantages of grading and pooling, it should be possible to extend grading and pooling to other varieties of produce also. The produce delivered by each member should be entered according to each specified grade and payment should be made to them according to quantity and value of produce for each grade from time to time as sales proceed.

(6) We have already recommended that marketing societies should be empowered to issue negotiable warehouse certificates for produce pledged with them in their godowns. We suggest that special crop marketing societies should be encouraged to do likewise and that central banks should issue loans on the strength of these certificates subject to a fixed limit of the market price of the produce stocked with the societies.

(7) Finally, we suggest that special crop marketing societies should be started first in the major producing areas and that a planned scheme should be drawn up jointly by the Co-operative and Agricultural departments, so that all the important commodities and areas of the Province may be covered in a specified period of time. We suggest that, if it be possible, some of the existing loan and sale societies may be converted into special crop marketing societies by suitable modifications in their constitution and methods of work.

Business principles and safeguards for adoption by marketing societies.

298. We recommend for adoption by marketing societies and special crop marketing societies the following business principles and safeguards :—

(*a*) loans should be issued not exceeding 70 per cent of the market value in the case of food crops and 60 per cent in the case of commercial produce placed in the custody of societies;

(*b*) loans should be repaid after the produce is sold, or in any case, not later than six to nine months from the date

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of the loan; release of the produce should be made only on repayment of the loans advanced;

(*c*) members should furnish additional security if the produce pledged is found insufficient due to fluctuation of market rates;

(*d*) societies should act only as *agents* when the produce is disposed of, and should effect only *cash* sales. (Sales effected on short credit may be considered cash sales for this purpose provided credit is given only to *approved* customers for a period not exceeding a fortnight);

(*e*) godown-keepers should be appointed by central banks to check the stock periodically, and to furnish a certificate to them. (Departmental inspectors also may be asked to verify the stock wherever possible);

(*f*) godowns should be locked and sealed and the key should be kept with the godown-keeper and weekly statements of stock verified should be sent to the central bank;

(*g*) as regards the produce stored in pits, straw granaries, etc., additional sureties may be insisted upon (e.g., unencumbered immovable properties in the form of continuing mortgage bonds to the value of double the amount of the maximum loan sanctioned to the borrower);

(*h*) produce should be stocked in godowns in the *joint custody* of marketing societies and financing banks;

(*i*) where loans are advanced on stock kept in the owners' godown, it should be verified by the supervisor (and one or two of the directors of marketing societies, if possible) before loans are sanctioned; the room or godown should be locked and sealed and the keys should be kept by the societies, the control of the godown being completely with them;

(*j*) the cash credit drawn from central banks by marketing societies should at no time exceed the loans outstanding against their members;

(*k*) the produce, whether hazardous or not, should be fully insured to the extent of advances except in cases where individual loans are less than Rs. 250; and

(*l*) insurance policies should be taken in the *joint* names of the central bank and the marketing society.

The Provincial Marketing staff—Is it necessary to transfer it to the Co-operative department

299. The Provincial Government have appointed a Marketing Board and the necessary marketing staff who carry on their work under the Director of Agriculture. The marketing staff consists of a Provincial Marketing Officer and four assistant marketing officers. Recently four agricultural marketing assistants have also

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been appointed for *development* work. The Provincial Marketing Officer is in charge of markeing surveys as well as development work, three of the assistant marketing officers attend mainly to marketing surveys, and the fourth officer assists the Provincial Marketing Officer in development work. The three assistant marketing officers are maintained from the funds of the Imperial Council of Agricultural Research, the others from Provincial revenues.

We have been asked to consider the question as to whether it is necessary to keep the provincial marketing staff under the Agricultural department or whether it may be transferred to the Co-operative department. We have been told that the functions of the marketing officers are very comprehensive. It is said that they act as an intelligence bureau and are not intended to take part in the day-to-day selling of produce, that it is their duty to study market conditions and to indicate the steps necessary to ensure proper returns for producers and to make the system of distribution cheaper and more efficient in the interests of producers and consumers alike and that they have also to explore the possibilities of finding wider markets, both inside and outside the Province for all commodities and of stimulating local production where necessary to meet local demands. We appreciate the wide range of duties which the marketing officers are expected to perform and we are equally conscious that, as we have indicated, there are various ways of improving the producer's returns, namely, regulation of market charges, better market intelligence service, use of standard weights, defining of standards of quality, getting reductions in railway freights and so on. The Agricultural Marketing Adviser to the Government of India has stated that many of these activities to which we have alluded have no connection with the Co-operative department (as it is now constituted) but are concerned with the better organization of the distributive trade in general, that the marketing staff are able to help in many practical ways both large and small co-operative sale societies by their knowledge of marketing conditions, extensive contact with traders and manufacturers of all kinds and that they cannot attend to the variety of these functions if their activities were circumscribed within the limited sphere of the Co-operative department.

Creation of a marketing department or transfer of marketing staff to Co-operative department.

300. We have given consideration to the opinion of the Agricultural Marketing Adviser and the points of view urged by him. On the whole we are inclined to think that if a large "drive" is going to be undertaken by the Government for the promotion of agricultural marketing and if producers' co-operative societies will have to be organized and technical advice made available to them for the purpose of finding a sale and of ensuring a better price to the producers, a special marketing department

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will have to be created. We also recommend that if such a department cannot for any reason be created immediately all the marketing officers now working under the Agricultural department should be transferred to the Co-operative department.

We cannot persuade ourselves to accept the statement with due deference to expert opinion that the marketing officers cannot do all the duties which are expected of them if they are attached to the Co-operative department. By reason alone of their transfer to this department, their activities will not get curtailed or circumscribed. We cannot see why the activities of the Co-operative department should not be so enlarged as to comprehend agricultural marketing also. The marketing officers will continue to do their present duties irrespective of the department to which they are attached. The co-operative movement has long ceased to be a machinery for the supply of credit alone and has come to be synonymous, as the Royal Commission on Agriculture has so rightly pointed out, with "agricultural organizations" or what is more popularly known as "rural reconstruction." It now touches the ryot or the producer at more points than one and through its widespread organization of local societies, central organizations and provincial institutions, it is better equipped to deal with the problems of the villager on a collective basis much more efficiently than the Agricultural department. We think the more relevant and weighty point for consideration is whether marketing *organization* and marketing *finance* should proceed in water-tight compartments as is now the case or whether they should be co-ordinated and worked together in the interests of producers and consumers. On a consideration of the matter, we are convinced that the balance of advantage lies in a co-ordination of marketing organization and marketing finance under the Co-operative department. What is necessary is that the marketing staff should assist co-operative and other organizations in the marketing of crops, "but not necessarily in the growing of them." And so long as the latter function is not one of the duties of the marketing staff it seems to us that there can be no objection to the marketing staff being attached to the Co-operative department. We may recall that a Deputy Director of Agriculture was attached to the Registrar for a period of one year (1931–32) in pursuance of the recommendation of the Townsend Committee on Co-operation for the promotion of cotton sale societies but that the post was abolished as a measure of retrenchment.

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CHAPTER X.—HANDLOOM INDUSTRY AND WEAVERS' SOCIETIES.

301. In an earlier part of the report we have dealt with the condition of the handloom weaving industry, the history of the co-operative societies which have been organized to improve the economic welfare of the weavers and the foundation of the Madras Handloom Weavers' Provincial Co-operative Society. We have described the difficulties, social and economic, under which the weavers labour and which also stand in the way of the progress of the societies started for their benefit. We now proceed to make our recommendations for the amelioration of the lot of the weavers and for the improvement of the societies.

Importance of handloom industry in the economy of the Province.

302. It is perhaps superfluous to point out the conspicuous part which the handloom industry plays in the life of the Province both as a wholetime occupation for the non-agriculturist and as a part-time subsidiary occupation for the family of the agriculturist. The facts that on an average 27 per cent of the total cotton cloth consumed in India is produced on handlooms, that the Province of Madras is the largest producer of handloom cloth, that a quarter of a million handlooms are at work in the Presidency, and that a million souls subsist on them, are sufficient to warrant our belief that the State should make every effort to preserve the industry. As far as the weavers' social ills are concerned, drunkenness, improvidence, want of loyalty to those including the management of co-operative societies who attempt to free them from their servitude to master-weavers and to the merchants who advance them money and yarn and purchase their cloth, there is a large field of work for the social reformer and the propagandist. The improvement of the weavers' economic condition (apart from what effect social reform may produce) depends mainly on measures, executive and legislative that are within the competence of the Provincial, some others of the Central Government.

Protection for handloom industry.

303. We believe that the industry has sufficient potentiality to withstand the competition from the organized mill industry, if protection is given by the State. We recommend the following amongst other forms of protection for consideration :—

Adjustment of the spheres of production of powerloom and handloom.

(*a*) Adjustment of the spheres of production of the powerloom and the handloom by reservation of certain classes of fabrics and of certain counts of yarn to the handloom producers or by fixing quota restricting the quantity of production by the powerloom. This is a complex problem of all-India importance and can be solved only by the Government of India in consultation with Provincial representatives of the mill and handloom industries;

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Levy of cess on sale of mill cloth.

(*b*) levy of a cess on the sale of mill cloth, Indian and foreign, at a rate sufficient to counteract the effect of competition with due regard to the parity of prices of handloom and mill cloth;

Increase of licence fee on mill cloth dealers.

(*c*) increase of the licence fee imposed by the Madras Government in 1937 on dealers of mill cloth to an extent which will in itself be sufficient to offset the higher cost of handloom cloth in relation to mill cloth and to render it unremunerative for dealers in mill cloth to ply their trade in rural areas; and

Levy of different railway freight rates.

(*d*) levy of differential freight rates for transport by railway of mill and handloom products.

Continuance and enhancement of subsidy.

304. We recommend the extension of the subsidy granted under the Government of India scheme by another period of five years.* The annual subsidy which is Rs. 68,000 is inadequate. We consider it should be increased, the Central and Provincial Governments bearing the increase in equal proportions. We may add that the increase in the subsidy need not necessarily be wholly in cash. Part of it may be in the form of free services of officers who give technical advice in regard to production and marketing or who organize, inspect and supervise primary production societies.

Provision by Government for supervision and inspection.

305. We recommend that the supervision and inspection of these societies should be done for the next five years at least at the expense of Government through the Co-operative department.

Reorganization.

306. We are of opinion that primary production societies should be reorganized on a sounder basis. The membership, the number of looms employed and the paid-up share capital should be large enough to make the working of the societies a business proposition. It will not be possible to set down precise limits; the Registrar will be able to decide in each case how the principle we have stated is to be applied. While we consider that the present exclusion of master-weavers from societies is right and should be continued, we would admit non-weavers who are willing to subscribe to the share capital and to help the society with their advice. These societies should be confined to areas where handloom weaving has survived and is being actively pursued.

Need for production of cloth in popular demand.

307. There are about half a dozen big weavers' societies in the Province, Coimbatore, Salem and Madura, for example, which produce not the common cloth worn by the masses, but valuable goods including silk and lace cloth which appeal to the classes.

* Since writing this, we learn the Government of India has extended it by two years.

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These societies require a heavy share capital and accommodation to the extent of 30 to 40 thousand rupees. The goods they produce do not sell readily and take months to dispose of. The members are reluctant to change their line of production to cheaper goods as that would affect their earning capacity and lower their scale of living. The case was quoted of the Coimbatore society where, for some time, the members changed over from their old patterns to the new style of 20 cubits pugrees and 18 cubit saris with embroidery and silk border which was in demand in the Poona market. The demand was, however, only seasonal, the weavers remained without work for the larger part of the year, the society suffered losses and they had now reverted to their old styles.

The question was debated in our meetings whether it was feasible to run these societies successfully on a co-operative basis. The difficulty was one of finance. The societies required a large capital, the goods took time to sell, and there were risks in advancing money to them. After considerable discussion we came to the decision that the difficulty was not insuperable and as will be seen from our financial recommendations below we have outlined a scheme for financing the big societies different from the scheme suggested for the smaller ones. We desire to impress on organizers of weavers' societies that the organization of the big societies must be differentiated from that of the smaller ones which produce popular cloth largely used by the rural population.

Need for discouraging the weaving of artificial silk cloth.

308. The imports of artificial silk yarn and artificial silk cloth are growing rapidly. We wish to stress the danger that lies in this to the cotton grower and to urge on the handloom industry the desirability of discouraging the weaving of artificial silk cloth.

Arrangements for marketing and sale.

309. From production we pass on to marketing. The promotion of the handloom industry depends as much on marketing as on production, perhaps even more largely on organization of marketing than even on production. To a large extent, marketing is the crux of the problem. In organizing a scheme of marketing, a difference must be made according as to whether the product is an exportable article or is one purely for internal consumption. In the case of the former (the Madras handkerchiefs and lungis are an instance), capitalistic agencies like city dealers and merchants may have to be employed for its effective disposal. A similar treatment will be required where the article has to be transported to distant internal markets. Instances of this are the Salem silk and lace border cloth and the Madura products. In the case of cloth produced for popular local consumption, specially in rural areas, it is desirable to dispense almost entirely with capitalistic middlemen and to organize marketing through co-operative sale societies and small size depots in the nearest marketing centres. The handloom industry suffers from lack of

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publicity. In order to aid these societies in establishing contact with the actual consumer, the Central Emporium and the local sale depots of the Handloom Weavers' Provincial Co-operative Society may, besides actually selling a part of the cloth produced by the primary production societies, also function as central display houses where samples are stocked and information is given to both producers and consumers. The departments of Industries and Co-operation, the Marketing Boards and the Marketing staff of Government must in addition to giving technical advice about designs, patterns, changes in fashion and taste, popularize the products of the handloom industry by display, advertisement and other methods.

Promotion of production of khadi

310. We also desire to recommend to Government the control of the import of foreign yarn into the country. The production of khaddar, that is, cloth woven on handloom with handspun yarn, is a great factor in our rural economy. The All-India Spinners' Association has already submitted a scheme to the Madras Government for the utilization of the provision made in the Provincial budget. The Association has urged that in addition to this provision, a subsidy should be provided (1) to cover possible losses caused by inexperienced workers in the initial stages, and (2) to enable the association to give adequate wages to the spinners and artisans. The subsidy is to be based on the actual increase in production during the year. The Madras Government has acceded to this request and granted (in 1937–38) a subsidy of Rs. 1,25,000 at the rate of one anna on one square yard of increase. Special hand-spinning centres are also being organized under the scheme. We desire to commend to the Government the desirability of promoting the production of khadi with the aid of the All-India Spinners' Association through the agency of its primary production societies.

Finance.

311. We now pass on to the subject of providing finance for the handloom industry. Our financial scheme is based on our conviction that the district central banks should not consider themselves as mobilizers of money only but should become live centres of co-operative activities in the districts, taking on themselves an increasing variety of duties as time advances and the sphere of co-operative effort widens. With this extension of their functions, central banks will, with the lapse of time, find less need for passing on money and more need for rendering services and supplying goods. The best service that they can give is to supply raw materials for all kinds of craftsmen. In due course, possibly, the Provincial Co-operative Bank may assume part of these functions and pass on its big loans in the form of materials to the central banks. But the Provincial Bank cannot be held responsible for direct touch with the primary production

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societies. In any sound co-operative structure, it is the business of the central banks.

With these preliminary observations, we now proceed to formulate our scheme. The financial needs of the handloom industry may be summed up under three heads :—

(1) purchase of raw materials;

(2) working expenses during the period of production; and

(3) monetary accommodation between the period of production and the final disposal of the product in the market.

It may be assumed as roughly correct that the cost of the finished product will correspond to one-third under each of the above heads, so that by the time the product is finished, the weaver will have drawn two-thirds of the cost.

The primary production societies should be affiliated both to the Provincial Handloom Weavers' Co-operative Society and the Central Bank in whose district they are situated by taking shares and becoming members. They should obtain their finance only from one of these two sources and not from both at any one time. *Which* of these two it should be must be made to depend on the amount required by the society. For this purpose, societies should be divided into two classes :—

(1) those whose requirements will not, at any time, exceed Rs. 1,000; and

(2) those whose requirements exceed Rs. 1,000.

The first class will be financed exclusively by the Provincial (Handloom Weavers') Society; the second class by the co-operative central banks. Such advances may extend to five times the owned capital of the primary societies, owned capital including their share capital and their reserve fund. In addition to such advances, loans may also be given against a floating charge on the goods stocked in the stores intended for internal consumption and not for export, or stocked in the sales depots of the central banks or in the Provincial Societies to the extent of 50 per cent of the value of the goods taken into stock.

When societies of the first class expand into the second class, the primary societies so expanded should refund the sums borrowed from the Provincial Society.

Our colleague, Sri T. A. Ramalingam Chettiyar, is opposed to the combined grant of loans up to five times the owned capital plus loans against a floating charge up to 50 per cent of the value of goods taken into stock. The ground of his opposition is that the goods were produced with the help of share capital and reserve fund and the transaction would amount to advancing not five times but more than eight times. The position reduces itself to

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this. Say that the share capital and the reserve fund of the borrowing society amounted to Rs. 100, the central bank would advance Rs. 500 on that. Assuming the value of the goods made with the help of that loan came to a similar sum, the bank would again be asked to grant a loan of Rs. 250, that is to say, the borrowing power of the society was raised to Rs. 750, seven and a half times its owned capital.

We find ourselves unable to agree with Sri T. A. Ramalingam Chettiyar. By the time the goods were produced, there was an additional security for the loan. The interval would be short, usually a week. It is not as if the financing bank dealt with the individual member of the society who was asking for a loan. The bank would and should deal with the society as an entity. Looked at that way, the sums borrowed would not be applied to the benefit of any particular member or on the security of the goods produced by him. It was a continuous process of manufacture, the loans would be utilized in production of different things by different members, but always there would be additional material produced.

Functions of Provincial Handloom Weavers' Co-operative Society.

312. So far, we have dealt with the primary production societies and only referred incidentally to the Provincial Society and its functions. We think it would be convenient to state below categorically what its functions ought to be. They are—

(1) to organize primary weavers' societies;
(2) to control their working so as to ensure the proper utilization of the Government subsidy;
(3) to establish and conduct central emporia and sales depots in the districts for the exhibition and sale of the products of primary societies;
(4) to supply improved appliances on the hire purchase plan or otherwise;
(5) to supply raw materials to the primary societies;
(6) to receive on consignment account the products of primary societies and sell them, or alternatively to buy them outright and sell them;
(7) to undertake preparatory and finishing processes and dyeing and printing in connexion with the handloom industry;
(8) to advise primary societies in regard to the production of improved and easily marketable patterns and designs;
(9) to collaborate with the textile section of the Industries department in the matter of research and technical advice.

Financing of the Provincial Society.

313. We now proceed to the financing of the Provincial Weavers' Society. In this connexion, it must be remembered that it is not a member of the Provincial Bank, that the latter

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can come in as a supplier of credit only, as an additional agency on the pledge of goods with the special sanction of the Registrar, and not on share capital basis or on the ordinary rules of co-operative credit. It is the Government that must be the main financing agency by taking shares in the society and by granting loans to it.

The limit of credit by the Provincial Bank will fluctuate according to the value of the goods pledged. The other conditions of the accommodation will be—

(1) The credit will be secured by a floating charge on all the assets and properties of the society and the drawn portion of the credit shall at no time exceed sixty per cent of the value at which goods have been taken into stock.

(2) The credit will be normally repayable in nine months though the Provincial Society accommodates the primaries only for six months.

(3) The rate of interest to be charged on the accommodation shall ordinarily be the same as that charged to the central banks on accommodation given to them.

(4) The Provincial Society shall furnish to the Provincial Bank a fortnightly report of the stock in the central emporium and the sales depots showing the value at cost price, duly certified by an officer of the society authorized in this behalf and verified by an Inspector of the department.

(5) The central emporium and the sales depots, wherever goods are stocked should be insured against fire and burglary at least to the extent of the accommodation given, and the insurance policy should be in the joint names of the Provincial Society and the Provincial Bank.

(6) The accommodation will be terminable on a month's notice on either side.

It will be seen from what has been stated above that the Provincial Bank lends money on the security of goods and in due course must aim at giving its cash credit on the open pledge of the goods subject to daily reports.

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CHAPTER XI.—COTTAGE INDUSTRIES.

Importance of cottage industries in the economy of the Province.

314. We propose in this place to deal with small industries other than handloom weaving. The handloom industry raises problems of a special character which have to be solved independently. It has a definite scheme of subsidy and protection and a definite co-operative organization has been evolved for it in this Province. The problems which other cottage industries present are comparatively simple and it is desirable that the two subjects should not be mixed up.

Experience in other countries shows that there is no necessary antagonism between large scale industries and the smaller ones. The hydro-electric and electric thermal projects which have been completed or are under construction or contemplation are bound to stimulate the establishment of new industries on a factory scale in the Province. These in their turn will render possible and facilitate the development of new cottage industries, the finished products of the former functioning as raw materials for the latter. Japan is largely a country of small industries, handicraft units and family enterprises, and a marked tendency has been observed towards a growth of them. In Germany handicrafts have adapted themselves to modern conditions and are able to keep pace with changing times. In fact it has been computed that one-eighth of the whole population of the Reich lives on handicrafts, the main handicraft establishments (of which there are more than one and a half millions in number) employing just as many persons as the most important groups of industry. In our own Province three industries which used to be considered to be enterprises of the factory order are now being developed as cottage or home industries, namely, soap, matches and paper. We are satisfied therefore that cottage industries have a future, an expanding future, and that the co-operative principle has a large part to play in their development.

Possibilities of development of specific cottage industries.

315. We have had the advantage of hearing Mr. L. B. Green, the Director of Industries and Commerce, and discussing with him the position and prospects of specific small industries, particularly those which will furnish subsidiary occupation to the agriculturist. It may be useful to refer to some of them. Mat-making is particularly suitable for the farmer and his wife but Japan is competing on a large scale. We agree with Mr. Green that with a little protection, the local production could be bettered. Basket-making flourishes in the Ramnad and Tinnevelly districts. It could be extended, but the market for it has to be developed. Coir-making is a useful subsidiary; there are demonstration parties of the Industries department at work which have led to an improvement of the processes. In the Northern Circars, there was a large scope for co-operative enterprise in this art which furnished occupation for the villagers in the coastal villages from the latter part of July to December. Private enterprises had been started but had failed for want of funds. It is an old industry; as far back as

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1639, the East India Company found it flourishing in the Godavari district and even now both men and women make good ropes for supply to the country-craft. Mr. Green told us that coir making was capable of considerable expansion with some improvements in the processes, such as introducing spinning wheel to increase the twist of the yarn in place of the yarn now crudely produced on the thigh. Co-operative societies could be usefully organized not only to help in improving the production but also in organizing the export trade in it. The Deccan districts of Madras produce good cumblies or rugs. As regards the essential quality demanded of a rug which is to keep out the cold, we consider that the closely-woven Kurnool rug is if anything superior to the English or Italian article. The Chairman has still in his possession four such rugs which he bought at Rs. 5 each in 1915, and in the depth of the Simla winter when the European blanket does not give sufficient protection, these rugs fulfil their essential purpose much more efficiently. But present day civilization lays stress on the more superficial qualities of sheen to the eye and smoothness to the touch; and that is where the European product wins. If the hand-worker would take trouble and would do his felting as industriously as his father did, he could give a more attractive appearance to his cumblies, but even so it could not be made as superficially attractive as the foreign thing. An improvement in the quality of the Madras wool is needed. It is a matter for joint investigation by the Industries and Agricultural departments. The Punjab hand-spun and hand-woven woollen articles are capturing the Madras market. With some organization the local producer should be able to compete with his Punjab brother. There are other occupations suitable for the cottage, such as making of palmyra and coconut jaggery, brass and bell-metal vessels, pottery, lacquering and others which we need not mention here.

Need for a Provincial Industrial Society.

316. As in the case of the handloom industry, not only has the production to be organized, but the marketing is even more important. We consider that the best method of securing the Objects in view is to establish a separate Provincial Industrial Co-operative Society, similar in constitution and functions to the Provincial Handloom Weavers' Society as reorganized according to our recommendations. This body should organize and administer primary production societies to be established for cottage industries other than the handloom industry, study the market for each class of product and organize selling agencies of various kinds so as to ensure the disposal of the goods. The Central Commercial Museum in Madras and the District Commercial Museums should be expanded into emporiums for stocking, display and sale of the products.

For the financing of these societies we recommend the same scheme as we have proposed for the handloom industry.

Finally, if two Provincial Societies are considered necessary, one for the north and the other for the south and the west, they may be started.

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CHAPTER XII.—WOMEN'S SOCIETIES.

Slow progress of co-operation among women.

317. We have described in paragraph 42 of the report the working of women's societies and their activities. These societies were originally intended mainly for the encouragement of thrift among women but later they were permitted to start cottage industries. There were 44 societies exclusively intended for women on 30th June 1939; 22 of them took up cottage industries, 19 were purely thrift societies, two were stores and one a credit society. In his report on the working of co-operative societies for the year 1938–39, the Registrar has made the following observations :—

> "Co-operation has not yet made much headway among women. Lack of sustained propaganda among them, a natural shyness on their part to come forward and manage co-operative institutions, and want of finance for undertaking cottage industries, are mainly responsible for this slow progress. For propaganda and successful organization of societies among women, a paid staff is required, and until this is provided, progress is bound to be slow. The experiment of having honorary workers has not been much of a success."

Though we agree that there are difficulties in the organization of societies for women, yet we feel that it is desirable to interest them in co-operative work.

Societies for upper middle and middle class women.

318. It seems to us that for the purpose of organization of societies, women may be put in three classes—upper middle, middle and lower middle classes and that the first two classes may be grouped together, while the third class may be put under a separate head. We think societies may be formed with membership confined to the first two classes of women and with the following objects :—

(*a*) to do propaganda and spread co-operative theory and practice among the poorer classes of women in towns and villages;

(*b*) to undertake activities such as maternity and child welfare, promotion of thrift and savings, organization of rural recreation clubs in order to improve the physique and health of women in the countryside;

(*c*) to eradicate social evils such as dowry, extravagant ceremonial expenditure, etc.; and

(*d*) to teach the rural womanfolk simple home industries or arts such as tailoring, neelework, etc.

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What we visualize is that these societies should act more as centres of culture, propaganda and education among the poorer classes of women in addition to the inculcation of thrift among their own members. We see also no reason why women of the upper middle class should not interest themselves in the management of co-operative stores or in the organization and promotion of " buying clubs " for joint purchase and distribution of domestic requirements and contribute to economies in household expenditure. We think further middle-class women can be encouraged to take to small home industries such as preparation of jams, preserves and pickles, embroidery, lace, needlework, etc.

Societies for poorer and lower middle class women.

319. We admit there are difficulties as regards the poorer and lower middle-class women. But they should be organized on a co-operative basis particularly in order to save them in urban areas from exploitation and to promote their social welfare. They can be encouraged to undertake small home or cottage industries such as hand-spinning, basket-making, mat-weaving, hand-pounding of rice, bee-keeping, coir manufacture, vegetable gardening, etc. We are aware that women of this class in the countryside generally keep themselves busy in helping their menfolk in agricultural operations but even then there is no reason why they should not turn their leisure hours specially in the off-season to advantage and make a supplemental income. We think the possibilities in this direction need to be investigated. In urban areas poor women carry on business in vegetables, fruits, etc., and they are charged high rates of interest for the advances they take from money-lenders. We feel that an attempt may be made to start societies or to organize separate sections in some of the existing co-operative organizations to advance small loans to these women, to recover the advances in driblets day after day and to promote thrift among them. We think some such experiments are worth a trial.

Appointment of paid women organizers.

320. In order that an impetus may be given to the formation of women's societies, we think it essential that paid staff should be appointed. We recommend that suitable women organizers be employed to look after the formation and supervision of women's societies in the Province.

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CHAPTER XIII.—CO-OPERATION AND RURAL RECONSTRUCTION.

321. We have been asked to consider the bearing of co-operation on rural welfare and to make suggestions for the co-ordination of the work of the Agriculture, Industries and Co-operative departments.

Objective of rural reconstruction.

322. Rural reconstruction is a term which can bear wider and narrower interpretations. In the widest sense it includes all that a Government can do to ensure prosperity in rural areas, and particularly every effort it can make to redress the balance between town and country. In a slightly narrower sense, it includes all those activities which tend to increase the health and the income of those who live in villages and isolated homesteads, whether through the increase of facilities like education, communications, irrigation, credit, and justice, or through the provision of particular assets like wells and school-houses, or through subsidy of one kind or another or through measures to check the operations of adverse forces, as in legislation for the relief of debt. If we look at these wider aspects of rural reconstruction we find co-operation playing an important part in improving the conditions of rural credit and of agricultural marketing—and in fact, as the Royal Commission on Agriculture in India has stated, " rural reconstruction," expresses more accurately the nature of the activities included within the co-operative movement—and the chapters of our report which deal with credit societies and co-operative marketing give our views on what is now to be done. The passage in the Royal Commission's report is so illuminating that we reproduce it here :—

> " The modern conception of the co-operative movement differs markedly from that commonly held at the close of the last century; the term ' agricultural organization ' or, better still, ' rural reconstruction ' expresses more accurately the nature of the activities included within the movement. It is now accepted that co-operative principles can be used in overcoming most of the obstacles to progress in rural communities. Wherever agriculture is the predominant industry, co-operation is coming to be regarded as the natural basis of economic, social and educational development, and India is no exception. Whatever view is taken of the failures and disappointments, it cannot be denied that, in almost all provinces, there are to be found outstanding examples of the successful application of co-operation to the problems of rural life; and, where success has been obtained, it should be within the power of the people to repeat it."

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Role of experts of Government departments and of voluntary co-operative associations.

323. In this part of our report we concern ourselves with rural reconstruction in the narrower sense of particular efforts to improve the economic and social condition of particular villages. We think the subject falls into two parts—what the departments of Government do through their officials, and what the people do for themselves. Some of those who answered our questionnaire and some of our members were more interested in the first, some in the second, and the views expressed ranged all the way between the extremes, one extreme being that co-operative societies are to be regarded as mere agencies through which Government will reach the villager with advice and material help, and the other extreme being that they are organs of self-help, which will stultify themselves if they accept anything more than applause from outside.

The best work seems to have been done in countries where the co-operative society served as a link between the will to self-help through honesty and industry of the individual and the special knowledge and ability of outside experts. In this country the outside experts till recently were to be found in the Government services, but an increasing number of private citizens are equipping themselves to take a part in the arduous task of instructing, organizing and helping the villager. The well-known words of the Royal Commission on Agriculture will bear quoting again :—

> " Where the problems of half a million villages are in question it becomes at once evident that no official organization can possibly hope to reach every individual in those villages. To do this, the people must be organized to help themselves and their local organizations must be grouped into larger unions, until a machinery has been built up to convey to every village whatever the different expert departments have to send it. It is by such a system and such a system alone that the ground can be covered. Only through the medium of co-operative associations can the teaching of the expert be brought to multitudes who could never be reached individually."

In spite of the general acceptance of the view of the Royal Commission, the expert departments have not yet succeeded in this Province in reaching the rural population through co-operative societies. Not only the credit societies, whose own readiness to forget their secondary objects might serve as an excuse, but even agricultural improvement societies and agricultural demonstration societies, kudimaramath societies, joint cultivation societies, and better living societies have been living an unprofitable existence where they could have been spearheads of the campaign for improved cultivation and less ignorant villages. Past experience makes us all the more insistent on the need for changes in the attitude and methods of both Government departments on the one side and co-operative societies on the other.

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Rural reconstruction schemes at work in the Punjab, United Provinces and Bombay.

324. We have considered the programme of the Punjab, United Provinces and Bombay Governments. All three aim at bringing the efforts of specialist departments to a focus in the village society by a two-fold drive to co-ordinate the policies of the departments at the centre and the activities of their officers in the districts and to multiply village societies of a suitable constitution and adequate enthusiasm. The schemes differ in detail; the Punjab uses a single Rural Development Commissioner, the United Provinces and Bombay, Boards of Rural Development. The United Provinces Government has set up a rather larger Board with rather more non-officials, and have appointed a Rural Development Officer without other functions; Bombay has preferred to make the Registrar of Co-operative Societies the Director of Rural Development. In the districts the Punjab relies on voluntary Dehat Sudhar Committees and the initiative of Deputy Commissioners in calling occasional meetings of informal Officers' Boards. The United Provinces scheme includes District Rural Development Associations in every district with non-official chairmen, Deputy Collectors as secretaries, and a membership fairly equally distributed between official and non-official. There are also ten touring divisional superintendents. The Bombay scheme includes District Rural Development Associations with a similar constitution; but the Assistant Registrar of Co-operative Societies is to be ex-officio Secretary of the association and also rural development officer for his charge. These two provinces also have Inspectors for smaller territorial units; the Punjab seems to rely on the ordinary staff of the various departments.

Adoption of the scheme of rural development on Bombay lines not favoured.

325. These experiments are interesting and should throw light on the most economical and effective means of using the resources of Governments and the energies of the people. We recommend a less ambitious scheme for a beginning. We are particularly against taking specialized staff from a specialist department as the Bombay scheme does in transferring Agricultural overseers and sub-overseers to the control of the Co-operative department in its new form. Agricultural demonstration, propaganda and research are interrelated and go together and should not, in our opinion, be separated as in the Bombay scheme. Again, the conditions in Madras differ from those in Bombay. We have over 13,000 co-operative societies in this Province as against 5,000 in Bombay, and the Registrar of Co-operative Societies in Madras even in the discharge of his normal duties has much more work to do than the Registrar in Bombay and if our recommendations are accepted by the Government, large schemes for the expansion of the movement, both intensively and extensively, will have to be launched and the Registrar's work

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will be much increased. Further, we feel that if the village co-operative society is reconstituted on the lines suggested by us so as to comprehend within its activities the whole of the village life and as many of the economic needs of the villager as possible, some of the functions of rural development embodied in the Bombay scheme will naturally get accreted to the Registrar's functions as the "Registrar of Co-operative Societies." We prefer to suspend our judgment on the suitability of the Bombay scheme for Madras conditions until we have had some experience of its working.

Need for co-ordination of work of development departments.

326. There is need for a greater degree of co-ordination between expert departments—particularly those "development departments" which are immediately concerned with the welfare of the agriculturists—the Co-operative, Agriculture, Industries, Veterinary, Public Health and other allied departments. Though the need has long been felt and impressed on the heads of the departments, we find that in actual practice the departments work rather in water-tight compartments. As things stand it is difficult to secure team work between the several departments. It is important that the difficulty should be overcome.

Appointment of Development Commissioner not recommended.

327. One method of achieving this is to provide for one effective overlord for all the departments whose services closely touch each other; "a captain is usually required to get fifteen (or eleven) men to play together as a team, not just as well-intentioned individuals." We have carefully considered the question as to whether a "Development (or Rural Development) Commissioner" may not be appointed to ensure team work between the "nation-building departments." On theoretical grounds, such an appointment may be justified. We are not, however, sure whether it will be economical and satisfactory. We feel that in actual working, the Commissioner is more likely to interfere with the individual discretion and judgment of the heads of departments, to control rather than co-ordinate, to dictate rather than suggest; instead of being a co-ordinating officer, he may tend to become an administrator and reduce the heads of departments to a position of subordination. This arrangement may rather impede and delay the working of the departments than promote co-ordination. We are, therefore, not in favour of the appointment of a Development Commissioner.

Constitution of Provincial and District Standing Committees.

328. In our judgment, the method best adapted to secure formulation of programme and harmonious co-operation of the departmental heads at the Provincial headquarters and judicious allocation and co-ordination of work in the districts is through the constitution of co-ordinating committees. We are aware of the

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criticism commonly levelled against committees as part of the administrative machinery of Government. "Committees are apt to be wasteful of time anyone who has had long experience of them can confirm, many varied hours rapidly spent in much talk and in few definite results, with much nibbling at issues and little thorough consideration of any—Committees are apt also to be relatively inefficient largely because responsibility is too thinly spread like a little butter over a long piece of bread." What we contemplate, however, is not a committee for the purpose of administration but one charged with the formulation of measures and plans for the rural and economic development of the country in the form of a Provincial Standing Committee of the heads of departments, with whom a certain number of non-officials should be associated. The Provincial Standing Committee should have as its Chairman the Minister most closely concerned with rural development and as its Secretary, an Under Secretary to Government. There should be a redistribution of portfolios among the Ministers on this basis so that the Minister who is to be the Chairman of the Provincial Standing Committee may be in charge of all the development departments which are intimately concerned with rural welfare. Its job will be to initiate measures of rural uplift, to secure co-ordination between the development departments, to watch the execution of measures and schemes and to review the progress made; it will supply points of view and comment on, and impart cohesion and unity of purpose to, the several schemes of rural development proposed by the heads of departments and make them related parts of a comprehensive programme of rural betterment.

In any big scheme of Government, there must be some committees for the purpose of co-ordination, and provided the committee is a well-planned, active and live organization, we see no reason why it should not prove an effective agency for securing team work between the departments and for ensuring the maximum of efficiency with a minimum expenditure of Government's resources. The Committee we have proposed will be composed of administrators and specialists and representatives of the people with the political chief at the head. A Standing Committee of this type will be better adapted to modern conditions and may prove to be a very helpful adjunct to Governmental machine.

We suggest that in the districts, similar Committees composed of officers of various development departments should be constituted with the Collector as its *ex-officio* Chairman. We are not convinced that the present periodical meetings of district officers and non-officials are sufficient for the purpose for which they have been created. The arrangements should be placed on a permanent basis and the bodies we have suggested should be designed more as committees of co-ordination than merely as advisory bodies. The District Committees will execute the policy and the schemes suggested by the Provincial Committee. They may in addition suggest

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schemes on their own initiative for the consideration of the Provincial Standing Committee.

Village Guides.

329. We contemplate that in the village, co-operative societies and village panchayats will be employed as agencies by the specialist departments—a matter to which we will revert presently—for carrying on the work of rural betterment with the help of rural guides. The village or rural guides we contemplate will be the link between the agricultural population and the officers of development departments executing plans of village uplift under the direction of co-ordinating district committees. The work of rural reconstruction will require the services of an increasing number of well-educated and imaginative young men who can understand the general principles of village and district administration and agricultural organization. They need not be specialists but they should be men with hand and brain and should be able to give a lead in those little things which may make all the difference between success and failure of the efforts to fit modern technical progress to the needs of an economically backward agricultural population. They will render advisory services and put the rural population into touch with the specialized services of development departments. We consider that it will be at once desirable and economical to have one common agency of rural guides for village panchayats and co-operative societies for the efficient supervision of societies and for the provision of guidance, direction and supervision of rural work. They need to be properly trained, paid and controlled.

Relative spheres of work of village panchayats and co-operative societies.

330. What is the proper organization to rouse the enthusiasm and mobilize the energies of the villagers? Some of our members and some of those who replied to the questionnaire favoured the statutory panchayat with its powers of taxation and compulsion. But most of us, while recognizing the usefulness of the panchayat for certain purposes, are compelled by the history of the institution in recent years to stress its limitations. It is apt to arouse faction rather than enthusiasm and to neglect even sanitation, its simplest duty. It is not by its nature adapted to promote agricultural improvement, better marketing, or social change. We feel that when a village has progressed in co-operation to the point where mutual assistance comes more readily to their minds than backbiting, there is scope for both co-operative society and panchayat, the former for voluntary activity and the latter for whatever involves the compulsion of a backward minority or the interests of the villagers as a whole, and not co-operators only. If in due course an elected panchayat should take the place of the village officers as the executive of the village and the main organ of administration—the time is not yet—the possibility and the necessity of combining the efforts of the panchayat and co-operative society would be

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greatly increased. At the present time we think it wiser to multiply co-operative societies and entrust them with the main burden.

The role of reorganized multiple-purpose co-operative societies in rural uplift.

331. The question then arises whether there should be one kind of co-operative society or several. This has been already answered by our recommendation that primary credit societies should be re-organized so as to give more weight to the secondary objects and make them instruments of 'better farming, better business and better living.' There is no need to discourage the formation of agricultural improvement societies, land reclamation and colonization societies, seed societies, and the rest. But the main effort should be to re-organize existing societies and constitute new ones in such a way that a single organization will serve as far as possbile all the economic needs of the villager. We see no need to have separate better living societies, arbitration societies or supply societies in villages which have a satisfactory primary credit society. Joint work, joint responsibility, and joint security are the contributions of co-operation to village welfare, and they can be secured for varied purposes in a single organization.

The danger in single societies with many purposes is that the business ability of the villager, which is sometimes unequal to the conduct of even a single enterprise, may be overstrained in attempting several. We think it essential that efficient supervision should be provided. Not only paid secretaries for the larger societies, but village guides, as already recommended, for every village are, in our opinion, necessary.

Ways of promotion of rural welfare by multiple-purpose societies.

332. The ways in which such societies as we recommend can promote village welfare are the same as those for which separate societies might be constituted. Regarding village reconstruction as a threefold process of which the stages of education, association and better living overlap, we think co-operative societies should undertake the education of the villager in the principles and practice of co-operation with the aid of departmental officers, promoting literacy by adult schools, reading rooms and other devices, instilling the principles of health and of economics, and enabling those who know nothing to learn from those who know something; they should at the same time promote association in activities and enterprises useful to each because useful to all, putting into practice what they have learnt about health and economics, cleaning the village, securing maternity care and child-welfare and first-aid training, establishing centres of recreation both outdoor and indoor, at the same time as they give credit and collect savings, supply good seed and improved implements, take an interest in the conservation of grazing grounds and the planting of trees, encourage the castration of scrub bulls and the control of breeding, experiment in the rotation of crops and the increase of fodder acreage, instruct their members in cottage industries to

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occupy their excess of spare time and supplement their income, form connexions with sale societies and enable their members to secure a better return for their work, and so, by paying attention to the biological, economic and social needs to their members give them a new hope and a new interest in life.

We do not think that any society could make an advance all along the line all the time. Every society will have to make a choice between the possible enterprises and prefer steady but real progress to a sudden efflorescence without roots. But if the officers of the various departments concentrate their efforts on the co-operative society, stay long enough to discuss and debate instead of hurrying through a lecture, carefully supervise actual enterprises like demonstration plots and village libraries and concert their tours beforehand with each other so that every department takes a hand in forwarding each enterprise as part of a well-considered programme, there is no reason why a society should not make a wise choice of activities and gradually develop them into enduring improvements.

Consideration of certain aspects of the rural problem.

333. It is not our purpose here to outline the methods of rural work or to suggest definite lines of co-ordination of rural services. These should form the subject-matter of study and investigation by the proposed district and provincial standing committees; they should formulate measures in the light of the results of investigations made in consultation with or through specialist departments, and voluntary associations. There are, however, certain aspects of the rural problem to which we have given particular consideration during our discussions, and we should like to refer to them here.

Does the Province suffer from a deficiency of food-crops?

334. During our discussion on problems of marketing, it has become clear to us that this Province suffers from a deficit of food crops and this is amply borne out by the statistical information available. The following statement * gives the index numbers of acreage of (i) cereals and pulses, (ii) cotton, (iii) groundnut, (iv) sugarcane and (v) tobacco, taking the average acreage in 1928–29 as 100 in each case :—

Year.	Index number of acreage of				
	Cereals and pulses.	Cotton.	Ground-nut.	Sugar-cane.	Tobacco.
1928–29	100·00	100·00	100·00	100·00	100·00
1929–30	103·52	100·48	87·23	110·14	100·58
1930–31	103·29	82·82	97·08	128·97	95·07
1931–32	102·38	89·44	71·63	130·35	105·32
1932–33	102·62	79·10	95·58	135·75	100·35
1933–34	100·30	87·47	102·72	136·57	97·10
1934–35	99·64	93·48	63·90	140·68	114·52
1935–36	92·47	108·09	68·49	135·91	109·47
1936–37	92·70	100·99	94·99	134·33	99·19
1937–38	89·75	103·19	126·59	109·98	115·28

* Page 6, A Note on the "Economic Resources of the Province of Madras and the Possibilities their Development" by Mr. L. B. Green, Director of Industries and Commerce.

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The above indices of acreage show that in general the area under cereals and pulses has been gradually falling since 1932–33. Considering the indices for 1937–38, we find a reduction in the area under cereals and pulses amounting to 10·25 per cent as compared with 1928–29, while an increase of 17·03 per cent in the total acreage of the four important commercial crops referred to is revealed. We notice further that in 1927–28 the area under food crops represented 76·1 per cent of the area under all crops and that in 1937–38 the percentage fell to 72·1. These statistics lead us to the conclusion that in recent years there has been a gradual replacement of the areas under cereals and pulses in this Province by commercial crops.

Another instructive fact is revealed by the following figures relating to the average quantities of trade in paddy and rice by sea for the trienniums ended with 1927–28 and 1937–38, respectively :—

Commodity.	Average quantity *imported* into the Province during the triennium ended with		Average quantity *exported* from the Province during the triennium ended with	
	1927–28.	1937–38.	1927–28.	1937–38.
	TONS.	TONS.	TONS.	TONS.
Paddy and rice in terms of rice ..	16,612	817,707	91,837	86,826

These figures prove that the exportable surplus in rice, which characterized the trade of the Province nearly a decade ago, has now changed into a large surplus of imports. For one thing, the acreage of paddy has been contracting in recent years and this has led to a diminution in production. For another, the population of the Province has been increasing. The population of the old Madras Presidency, according to the census of 1931, was 46·74 millions, but its population after the formation of the Orissa Province, according to the same census would be 44·16 millions. Taking the percentage of decennial increase revealed in the last census, viz., 10·4, the estimated population of the Province as now constituted would be 47·32 millions in 1938. Thus, the net result of these two factors has been an increase in imports of rice from outside the Province in recent years, so as to make good the deficit in production synchronizing with a growing demand.

Further, some people consider that the minimum subsistence family holding in India may, in general terms, be put from 4 to 6 acres, although differences in soil, productivity, water-supply, crop rotation and agricultural practice may alter the size of the subsistence holding and that five acres may be fairly accepted as the minimum subsistence family holding. They consider, too, that one acre of land *per capita* is indispensable for the nourishment of man (4·2 persons being the average size of the family in India). The crop area *per capita* for the whole of India is 0·78 acre while that for Madras is 0·74 acre, the Punjab, the Central Provinces and Bombay showing 1·12, 1·58 and 1·61 acres respectively. The co-efficient of over-population in India (one acre divided by the

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crop area *per capita* of the country) is 1·3 for the whole of India and for Madras it is 1·35, the Punjab, the Central Provinces and Bombay showing 0·89, 0·63 and 0·62, respectively.* The position of Madras compared with some of the other British Indian Provinces in the matter of production of food crops thus appears bad.

Need for increase in output of food-crops.

335. We consider then that in order to make the Province self-sufficient in respect of her food-supplies without giving up industrial or money crops, steps should be taken to increase the food crops by all possible means. We think this is possible of attainment through intensive farming of land under cultivation, introduction of improved seed and increased supplies of manure and extension of area under cultivation (by land reclamation and colonization) wherever possible, by undertaking new irrigation projects, and a liberal and prompt extension of ayacut in deltaic areas.

A scheme of seed distribution suggested.

336. In our opinion one of the important tasks of the immediate future in particular for the Agricultural department and the Government is to increase the output of food crops through the adoption of a well-planned scheme of distribution of improved seed. We are informed that through this means the total production may be increased by about 10 per cent. We consider that the responsibility for producing the seed should rest on the Agricultural department and that its distribution should ordinarily be entrusted to non-official agencies. Co-operative organizations are particularly well-suited to this task and rural reconstruction centres, wherever they exist or will be formed can also play their part in the scheme of distribution. We suggest that where no such agencies are available, Government should make the necessary arrangements in this behalf. The technical supervision necessary should be supplied by Government free. We feel that at present more attention has been given to commercial crop seed; we hope that food crop seed will not be neglected. Our advice may appear to be inconsistent with the advice a former Director of Agriculture in Madras gave to the Madras farmers. He said in effect " Less rice, more special crops." We see no real inconsistency. We interpret his language to mean that a varied cropping would protect the farmer in seasons of depression more efficiently than the production of a single crop. We do not dissent from this view but we wish to emphasise the fact, not so well known as it ought to be, that in spite of the enormous acreage in rice, the country is not self-sufficient in her rice production, and that this is a potential danger in an unsettled world.

Growth of population in the Province.

337. We have, in passing referred to the question of the growth of population of this Province. During the three decades of this

* Chapter I, " Food Planning for Four Hundred Millions " by Dr. Radhakamal Mukerjee.

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century, the population went up from 38·65 millions to 46·74 millions, the percentage of increase being 21. Whether this rate of increase should cause anxiety or whether it may be regarded as normal is a matter of controversy among economists, and it is not our purpose to enter into it. We may however summarize it thus :— Broadly speaking, there are two schools of thought. One holds, along with the Census Commissioner (1931), " that of all the nations that we know, it is India that has the largest population." The Census Commissioner considered the 10·6 per cent increase in population disclosed in the 1931 census " a cause for alarm rather than for satisfaction." The second school thinks that there is nothing in the population increase in this country which suggests any inherent abnormality. During the three decades referred to, the population of England increased by 23 per cent while that of India as a whole increased by only 20 per cent and that of British India increased by as little as 17 per cent (the increase for Madras being 21 per cent). This school of thought approaches the matter from the point of view of what is called the " net reproduction rate " and not from the point of view of births, deaths and increase and from the available statistical evidence, feels that there are indications of a lower specific fertility rate and considering the very low number of female survivors, a low net reproduction rate; it holds that there is *prima facie* proof that the net reproduction rate is low and indicative, at the most, of a normal stable population growth.* Apart from this controversy, however, we are immediately concerned with one result of the population increase and that is the effect it has had by way of increasing pressure on land for cultivation purposes. We have refrained from examining its effect on curtailing land available for pasture and for fodder to cattle, resulting in a loss of efficiency in working bulls and in a loss of productivity in milking animals.

Is there a real agricultural over-population?

338. Whether the pressure is such that the land cannot support all the people dependent on it or, in other words, whether there is a real agricultural over-population as such is a matter of economic and statistical enquiry. We would, however, content ourselves with pointing out that modern economic theory does not suggest any reason for regarding over-population as abnormal. For over-population only means that the capital resources of the population fail to increase fast enough to maintain output per head : it would be equally accurate to speak of a shortage of capital. If, as population increases, the area of land and capital equipment remain the same, output per head must fall, but it need not follow that labour is unemployed. But the limits of labour intensification are more quickly reached when no addition to capital can be made. Consequently land shortage may easily mean unemployment if

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* Chapter IV, " Economic Problems of Modern India "—Edited by Professor Radhakamal Mukerjee.

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the qualities of the land do not make more intensive cultivation practicable. Physical conditions may set a fairly clear limit to the amount of additional labour which can be employed. Where climatic and soil conditions are poor, an increase in population means redundant labour. Thus, in terms of modern economic theory, to say that a region is over-populated means simply that the working population is excessive with reference to a certain technique of cultivation, which must be taken as fixed as things are.*

Whatever economic theory may suggest, we find that, in fact, over-population appears in such crude form that it is easily recognizable. Recent investigations in certain European regions have shown that even in the absence of satisfactory statistical data, the existence of over-population can be indicated through certain phenomena generally recognized as symptomatic. A common feature of regions in which there is a pressure on agricultural land is the great reduction in size of the typical holdings by successive subdivisions resulting in the so-called "dwarf holdings." Another feature that is common to many of these regions is fragmentation of holdings, the dispersion of individual holdings in small parcels—the holdings are generally too small not only for economic operation, they are too small for subsistence also. Another symptom of agricultural over-population is the high percentage of food and cereal crops in the total arable area. Again, a low unit yield is common to practically all the regions which are over-populated. The small size of agricultural holdings, the high proportion of cereal crops to total cultivated area, the low unit yields—whether or not they can be related to agricultural over-population—are of significance in that they all lead to under-nutrition. The conditions common to many of the agriculturally over-populated regions have, as one of their main results, a state of chronic under-nutrition which, in turn, means disease and general loss of vitality. Together these conditions eat away what remains of the spirit of enterprise.

Remedies for agricultural over-population.

339. These features are characteristic of agriculture in our Province—even in India—and the conclusion forced on us is that the Province suffers from agricultural over-population. The remedies for this state of affairs are many—emigration, industrialization (to bring about a more balanced national economy), pursuit of secondary industries including the revival of domestic industries, reform of the agricultural structure by way of promotion of measures to ensure better unit yields, higher intensity of production, mixed farming, better crop rotations, etc., in short, a rationalization of agriculture and finally agricultural colonization. In fact, the Royal Commission on Agriculture has recommended definite schemes of colonization for relieving pressure on land and settling on available disafforested or waste lands the surplus agricultural population.

* Chapter III "Economics of Peasant Farming" by D. Warriner.

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Agricultural colonization on a co-operative basis.

340. We discussed the possibilities of colonization at some length, examining Rao Bahadur M. R. Ramaswami Sivan and consulting the Director of Agriculture. The former has not given up hope in spite of the apparent failure of the Annamalai University scheme for putting unemployed graduates to work on the land; only two applicants appeared when the scheme was inaugurated. We feel that schemes of colonization should be designed rather for landless agricultural labourers than for town-bred graduates, and in another place have made some suggestions concerning the assignment of land to scheduled class colonies. We cannot speak with confidence about the chances of successful colonization. The chief difficulty is want of knowledge about the extent and nature of the land fit for agriculture but still unoccupied. The figures under 'cultivable waste' in official statistics are no guide, including, as various investigations have revealed, much land which is fit for no agricultural use. If there is useful land to be had, the ordinary 'darkhastdar' will take it. If it needs such reclamation as an individual cultivator can achieve, the rules regarding the grant of land on *cowle* and regarding *sivaijama* occupation facilitate cultivation. It seems to us that most of the land which is really fit for cultivation but still unoccupied is limited and is in tracts where extensive and expensive reclamation including irrigation projects is needed. Some of our members think there are suitable areas in the Wynaad which are in private ownership but unutilized because of malaria. Government could acquire tracts large enough to support small colonies. There are also possibilities in Guntur, Kistna and Godavari, where waste land is being leased out by Government. We were informed of certain projects for colonization already under consideration; these experiments may point the way to others. After discussing questions of tenure, joint cultivation, size of holding, conditions of alienations, financing, and other matters involved in such experiments, we recommend that—

(1) detailed investigations should be made of localities in each district where large tracts of land are available for assignment for purposes of agricultural colonization;

(2) schemes of colonization should be undertaken by Government as reclamation for the creation of new agricultural wealth;

(3) before the land is handed over to the colonist, Government should undertake at its own expense all the measures necessary to make the land fit for cultivation and the locality fit for habitation—in particular, the clearing of the land of shrubs and jungle growth, the sinking of wells for irrigation, the provision of roads, the building of dispensaries in malarial tracts; and should provide free technical advice through Agricultural demonstrators and other specialists;

(4) the land should be exempt from assessment for the first five years;

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(5) assignments should be made only to co-operative societies as corporate bodies; that is to say, the ownership of the land should vest in the society;

(6) the co-operative societies should in the first instance give the land to landless people on temporary leases, which should be made permanent after a period of probation during which the colonists prove themselves good cultivators;

(7) co-operative colonization societies should make adequate provision for granting credit to cover the expenses of cultivation; and if the requisite finance cannot be had from district central banks, it should be advanced by Government;

(8) the areas leased out should be ' economic holdings ' (the size to be determined with reference to local conditions, the crops grown, etc.); the lessee should enjoy a right of permanent occupancy but should not be entitled to alienate his right to anybody who is not a member of the co-operative society; and the holding should be impartible so that it can never be reduced below the economic minimum or fragmented.

We have referred to our discussion of colonies for the depressed classes; the rest of our observations on the part that co-operation can play in mitigating the grave social effects resulting from the existence of an underprivileged class, whose economic, educational and social inferiority acts as a drag on village improvement, will be found in the same place and should be considered in their bearing on rural reconstruction.

Consolidation of agricultural holdings.

341. We had an instructive session with co-operators from the Punjab at which we considered the possibilities of consolidation of holding societies in this Province. Our feeling is that the problem is not as urgent or keen here as in the Punjab, while the solution of it, because of the differences in our agriculture might be even more difficult. We do not recommend any large-scale attempt at co-operative consolidation; but a gradual increase in the number of consolidation societies should be encouraged. In irrigated tracts where fragmentation impedes the distribution of water there should be plenty of useful work for such societies to do. They could also do much good by securing through exchange and compensation the area immediately adjoining the village for such communal purposes as playgrounds.

Litigation in rural economy.

342. In the course of our discussions on rural indebtedness, some of the members have impressed upon us that litigation is one of the causes of borrowing and of village factions which, in their turn, prevent co-operative or collective endeavours for village improvement. It has been, therefore, suggested that in order to

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discourage litigation and to provide for speedy disposal of disputes amongst villagers, resort may be had to arbitration and that arbitration societies may be started to dispense justice more quickly—and cheaply—than is possible through courts of law. It is also claimed that settlement of disputes through co-operative societies formed for the purpose will obliterate communal or caste feelings and exert great educative and moral influence upon villagers.

We had a discussion with the Punjab co-operators who told us that arbitration societies were working successfully in that Province. It was, however, made clear in our talks that these societies were started only in very backward tracts in the Punjab, which are remote and have no easy access to courts of law and where the people are comparatively unsophisticated. They seemed to us to partake rather of the nature of caste panchayats who give rough and ready decisions which are accepted without demur by the small village community. The village conditions in this Province differ from those in the Punjab and we feel sceptical of the satisfactory working of arbitration societies here.

Formation of Arbitration Co-operative Societies.

343. It is not, however our intention to damp the enthusiasm of zealous co-operators. We therefore suggest that such societies may be started as an experimental measure in districts where modern education has not penetrated, where the village is small and self-contained and the villagers are inclined to obey their elders rather than criticise them.

Importance of cattle in the agricultural economy of the Province.

344. Cattle constitute an important form of agricultural wealth and the role of cattle industry in the agricultural economy of the Province—and of India—has long been recognized. The following statistics give an indication of the importance of livestock in this Province :—

Year of enumeration.	Oxen			Buffaloes.		
	Bulls and bullocks.	Cows.	Young stock (calves).	Male buffaloes	Cow buffaloes.	Yong stock (buffaloe calves).
(1)	(2)	(3)	(4)	(5)	(6)	(7)
1929-30 ..	7,401,706	5,622,356	3,423,254	1,354,894	2,765,694	1,872,826
1934-35 ..	7,000,967	5,984,793	4,803,971	1,391,579	2,888,678	2,536,867

	Sheep	Goats.	Horses and Ponies.		
			Horses.	Mares.	Young stock (colts and fillies.
	(8)	(9)	(10)	(11)	(12)
1929-30 ..	12,864,343	7,406,018	24,761	11,954	3,044
1934-35 ..	11,938,724	6,761,921	32,937	14,362	5,564

Either from the point of view of the income from the sale of cattle products (i.e., milk and milk products, hides and skins) or from that of cattle labour for purposes of cultivation or for transport

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of produce, cattle are of great importance to the ryots of the Province. Nor can we overlook the contribution of cattle to the fertility of the land through supply of manure.

It is well known that the amount of capital invested by the ryots in livestock is always considerable, and the small ryot who loses his cattle by disease or other misfortune is frequently unable to replace them out of his own resources. Of all the disasters to which he is liable, there is none which he has more reason to fear than the loss of his livestock. This is one of the sources of his indebtedness. It is true that he can borrow from a co-operative credit society to repair his losses and to buy fresh cattle, but even so, his credit for other purposes will be impaired. One of the ways to provide against cattle mortality is by insurance.

Historical retrospect of cattle insurance societies.

345. In Madras, the question of the formation of cattle insurance co-operative societies was considered even as early as 1919, and the Government directed that a beginning might be made to organize a few societies in suitable localities with a view to gaining experience and arousing amongst the people an interest in the matter. The main features of the scheme as formulated then were briefly—

(*a*) that all cattle above one year and below eight years should be insured;

(*b*) that a member could insure ten animals at the rate of one animal per share;

(*c*) that the animals must be examined by the Veterinary Assistant Surgeon and certified by him to be healthy;

(*d*) that the insurance covered only two-thirds of the actual value of the animal;

(*e*) that the premium was one anna per rupee on the sum insured for male animals and one anna and a half for female animals;

(*f*) that the bones and hides of the insured animal which died, were to be the property of the society; and

(*g*) that the income derived by way of premium and by the sale of bones and hides was intended to be utilized for the payment of the insured amount to the cattle owners who were members of the societies.

Three cattle insurance societies were registered in the Chingleput district between the years 1925 and 1927, a fourth in South Arcot and a fifth in Madras. Four of them did not begin work and the fifth one was short-lived. All of them were liquidated by 1932–33.

Cattle insurance societies were organized on a large scale in Burma but we are informed that out of 219 such societies on the list last year, only six societies were working. We understand that cattle insurance has not proved popular in Burma because the

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people considered that the rate of premium was high, that the indemnities paid to them on the death of cattle to the extent of two-thirds of the insured value were too small, and that the premium paid by them was not a good investment as they did not get back even a part of it if no cattle died.

Difficulties in respect of cattle insurance.

346. Cattle insurance is one of the most difficult forms of co-operative effort. First, statistics relating to mortality among cattle are necessary to assess the actual premium rates. They are not at present available and it is essential that suitable arrangements should be made for the collection and collation of accurate statistics showing the incidence of mortality among cattle from all causes in each age-group. Secondly, it is necessary that the ryot should keep the animals well and in good condition. As it is, most of the ryots often allow their cattle to sustain themselves on communal pastures, which leads to under-nourishment and contraction of contagious diseases. The average quality of cattle is poor and insurance of cattle is not worth the while except in the case of pedigree stock, but in their case too the risk of losses through diseases is at present great. In western countries cattle are generally well nourished and in most countries stall-feeding is resorted to; rarely cattle are allowed to roam about on communal pastures. Thirdly, there should be an adequate organization for the control and prevention of contagious diseases and veterinary aid should be easily accessible and properly regulated. The existing lack of proper and timely veterinary aid and the ignorance and prejudice of the ryots to avail themselves of such little aid as may be available are obstacles to experiments being made. We have it on the authority of the Director of Veterinary Services that the number of qualified Veterinary Assistant Surgeons available for inspections and production of documents, treatment, etc., when necessary in rural areas is too small " and that the question of identity of animals, when false or doubtful claims are put forth, is too difficult to decide." Fourthly, we feel that insurance of cattle cannot be worked successfully through private enterprise in the existing conditions of the Province and that the State alone can attempt a venture of this kind even as an experimental measure.

Cattle insurance societies not recommended.

347. In view, therefore, of the difficulties involved, we do not recommend the formation of co-operative societies for the insurance of cattle.

Encouragement of cattle-breeding societies.

348. We notice that an attempt has been made recently to start cattle-breeding societies in the Province, to help ryots to buy and maintain stud bulls for producing a good strain of cattle, to own or hold on lease pasture lands and to undertake the maintenance of dry animals of the members on those lands. We find that there

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are five societies of this type as on 30th June 1939. Two have since been started in Guntur. We suggest that the efforts of the department in the immediate future may be directed towards the formation of cattle-breeding societies and that the State and local bodies may encourage them by grant, or gift of good bulls and by the provision of good grazing grounds wherever available on favourable terms.

We welcome, in this connexion, the constitution, by the Provincial Government, of a Provincial Livestock Improvement Board with its object of advising the Government on schemes for the improvement of livestock in the Province and hope that the Board will take steps to stimulate interest among people in improved cattle-breeding and organize suitable machinery for the collection of statistics regarding cattle mortality preliminary to the introduction of schemes of cattle insurance.

Crop insurance not recommended.

349. We have examined the question whether crop insurance (that is to say, insuring the ryots against damage or loss in yields due to unavoidable causes such as drought, flood, insect infestation, plant disease, etc.) is possible. We find that even in an advanced country like the United States of America, crop insurance has not been quite a success either because of the limited area over which insurance has been operated with the consequent limited spread of risks, inadequate data for establishing proper actuarial basis or because of attempts to insure the farmers' income rather than their losses in yield. Crop insurance in this Province bristles with difficulties. The proportion of irrigated to total area sown in the Province is about 28 per cent; most parts depend upon the vagaries of monsoon; and fairly large areas are affected by drought and famine, while the recurrence of cyclones is not unknown in the coastal districts. Improved agricultural methods including the conservation of soil moisture have not yet made great headway. In these circumstances insurance of crops is impossible.

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CHAPTER XIV.—THRIFT AND SAVINGS.

Agricultural credit societies and rural savings.

350. One of the terms of reference to us is to suggest measures to encourage and stimulate thrift and savings among small agriculturists and artizans and the arrangements and facilities necessary to enable them to deposit their savings. The question of savings and investment habit has in recent years received attention. It is recognized that the development of banking depends to a great extent on the growth of the investment habit, which, in its turn, depends on the earning capacity of the people, their will to save, the incentive to save and the facilities for investment. So far as the agriculturists of the Province are concerned, it is often said that the average agriculturist is hardly able to lay by anything, as he has little surplus even in normal years while the well-to-do agriculturist finances his less well-to-do neighbour. We have already stated elsewhere that most of rural money-lending is done by the ryots themselves. They do not usually deposit their money in co-operative societies or banks or invest in post office cash certificates or Government securities.

We find from an examination of the position of agricultural credit societies, that out of the total working capital of Rs. 473 lakhs on 30th June 1939, their paid-up share capital was Rs. 53·36 lakhs, and their reserve fund Rs. 78·75 lakhs; deposits from members amounted to Rs. 8·29 lakhs and those from non-members to Rs. 17·59 lakhs. In other words, the deposits both from members and non-members constituted a small proportion of the total working capital of rural credit societies. The share capital of members represents a form of savings but even this, compared with the total working capital, is not much. The charge often levelled that village credit societies are little more than "borrowing groups" and that they have hardly done anything to stimulate thrift and savings in rural areas is not altogether unjustified. This state of affairs is attributed to more than one reason:— Unremunerativeness of agricultural enterprise in any year or succession of years owing to failure of monsoons, uneconomic nature of holdings or fall in prices or lack of subsidiary occupations, expenditure of large sums on social or religious ceremonies, litigation or factious disputes either out of savings or borrowings, lack of incentive to save owing to pressure of burden of debt, a general craze to invest their surpluses in land in preference to any investment in banking institutions, or lack of propaganda in the countryside in favour of thrift and savings, and of adequate facilities for investment.

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Inadequacy and unsuitability of post office savings bank as an agency for stimulating rural savings.

What are the existing facilities for investment of savings ?

351. The post office savings banks provide a safe place for the deposit of the savings of the people; but so far their transactions have not extended beyond urban and semi-urban areas and the middle, upper middle and professional classes. They are not within easy reach of the agricultural population. The number of post office savings banks for the whole of the Province on 31st March 1938 was 2,493. It is hardly necessary to remind ourselves that this Province contains over fifty thousand villages. It is evident then that, though the postal savings banks have served the needs of a large body of urban classes, they have not served the needs of the rural population and have not tapped rural savings. Most villagers have no dealings with the post office and from what we know, the postal cash certificate is hardly known to them. There are difficulties involved in the extension on any large scale of post office savings banks to rural areas. We have, therefore, to leave out of account the post office savings bank as an agency for stimulating thrift among the rural population or as a depository.

Suitability of village credit societies for promotion of thrift.

352. The alternative organized agency for the purpose is the village credit society. The founders of co-operation laid great stress on thrift and judged societies largely by their success in collecting the small savings of members into considerable accumulations of share capital and deposits. According to Raiffeisen and Schultz-Delitsch the function of co-operative banks was to gather together the small and scattered savings of all small producers and distribute them so that they would circulate and a comparatively small volume of deposits might finance a comparatively large volume of credit. The theory was that the members' own deposits would provide a very large if not the greater part of the working capital. We feel that it is still to be proved that this theory cannot work in the conditions of this Province. The richer classes can save more easily; but the poorer classes are so much more numerous that their total potential savings must be enormous just as their total credit needs are great though the credit needed by each individual small ryot and artisan is small.

Role of rural credit organizations in the promotion of thrift and savings.

353. We have already referred to the popular statement that thrift is not possible for the average ryot (and artisan) who never has a surplus to save. We are constrained to think that those who say so confuse thrift with investment. The thrift to be encouraged is, as we have stated, a matter of building up adequate

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reserves, storing up temporary surpluses against prospective deficits. Even if, in the long run, the ryot and artizan and wage-earner are not likely to accumulate, there are always favourable and unfavourable seasons, times of ease and times of emergency. It may be that agriculture shows a deficit instead of a surplus in any year or series of years for an average ryot. But it is equally obvious that with such variations in crop outturn, the ryot should put by savings in the good year and borrow in the bad. Co-operative societies should always be collecting the temporary surpluses of some or all of their members in good years and using them to provide for their temporary needs. The societies should, in the long run, build up for members reserves to relieve them of the need of seasonal borrowings. In other words, it should be, in our opinion, the principal function of village credit societies to carry on propaganda amongst members, encourage the habit of savings amongst them, collect the savings and finance the members for seasonal requirements from the savings collected from them. From being credit societies they should gradually transform themselves into savings and banking agencies. We would stress that all those in charge of rural credit organizations (with their enlarged area of operations and multiple-purpose activities) should keep this objective in view and see that it is translated into action.

What has been shown by past experience is that the offer of interest is not a sufficient inducement to the ryot or artisan to save. His total savings are so small that the interest on them makes no sensible difference to his income. Being so small, their safe custody is not difficult and the poor man is not convinced they will be safer if deposited in a bank. On the other hand, as fixed deposits they are not available as soon as they are needed and so banks which have no facilities for handling petty current accounts and have not popularized current accounts in their area are not attractive to the poor man as repositories for his money. The ryot is more attracted by investment in land; the artizan may put his savings into a house or into jewels (two forms of investment which appeal particularly strongly to the women of his family in the social conditions of the Province) or he may find them drained away by festivals and ceremonies and social obligations.

Education in budgeting-saving to be linked up with definite objective.

354. The inducement to be offered, since interest will not serve, is education in budgeting. A very fair proportion of the ryot's debt is incurred for purposes which are foreseen and made obligatory by social opinion and custom—festivals which recur every year or the marriages of daughters which are anticipated from the time the daughters are born. Another large part is incurred because of emergencies which are not foreseen but are known to be probable—loss of cattle by disease or epidemic and

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the like. A third part represents the accumulated deficits of times of bad prices, which are known to recur. The duty of the co-operative society is to make its members face these needs for money *before* and not after they arise. They should not be told : " Save money, because it is good to have savings and you will get interest on it," since the vague exhortation has no power and the spending of a given sum now may be far more attractive than the prospect of spending a slightly larger sum a year hence. They should be told : " Consider all the needs for money you know you are going to have; provide for them in advance instead of paying for them with interest later." Probably if they can find the money later, they can find it earlier.

Savings deposits can with advantage be linked with particular purposes and an incentive can be provided for saving. In the villages long-term savings deposits for the purchase of land and cattle and short-term deposits for the purchase of seed and implements or for the payment of land revenue may be instituted. In both town and country the co-operator should be induced to set aside small current surpluses for his expenses at such festivals as Dipavali, Dasara and Pongal (or Moharrum or Christmas) and, with a longer view and a longer term, for the education and marriage of his children and the funerals of his elders. The wearing of new cloths on a Dipavali day is a universal feature among the Hindus. We suggest that it is well that members should be asked to make provision for the purchase of cloths on that occasion; " Dipavali " or " Pongal " or " Oonam " deposits should be introduced and encouraged so also " Marriage " deposits. Or again, provision may be made for a cattle fund. We learn that in Burma, in the reconstructed village societies members are required to subscribe at the end of the main harvesting season, a fixed annual sum per head of cattle to enable them to replace the cattle in the event of loss by death, theft or other causes. The amount standing to the credit of the member is on his behalf utilized by the managing committee in replacing lost cattle. This fund is kept as a separate account in the post office. No money is handed over to the member for this purpose. If a member is not able to subscribe the amount due to the cattle fund out of the proceeds of his harvest, it is permissible for him to transfer from his savings, if any, with the society. We suggest the desirability of village credit societies making similar provision and linking up saving with some definite objective or purpose.

If the savings are attracted for a particular purpose which recurs once a year, the fund will be depleted when the due season comes. But if the depositors once experience the relief of having their own money to spend, for example at Dipavali, there is every hope that they will determine to continue in the same way and begin to save again for the next time. Societies may be able to find two or three purposes attractive to different groups

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of members and fitting in with each other so that one group of savings will be high when another group has to be disbursed and the aggregate savings fund will never fall below a good working level.

Conditions necessary to make the savings scheme a success.

355. We think that to make the scheme attractive to the ryot there are certain essential conditions. The first is that the deposit should not be by fixed instalments. The surplus of a period may be large or small; the society should be prepared to take whatever the depositor can spare, even if it is only an anna or two. The *hundi* or savings box scheme has the advantage that even copper coins can be dropped into the box. But the *hundi* box does not talk. The second essential is continuing emphasis on the need to balance the family budget sooner or later and on the advantages of balancing it sooner. Since, however, there are often good reasons for incurring a debt rather than doing without necessities, there is a third essential—which is that the deposit scheme should be linked with a credit scheme, whereby the deposits become the security for petty loans granted immediately a need arises, obviating recourse to other sources of credit. The depositor in any scheme to gather small savings must be allowed to borrow without delay up to the full amount of the deposit and as far beyond as his honesty and the total funds warrant. Otherwise, he will withdraw the deposit and stop saving. We think the hundi box scheme would be much improved if the depositors were encouraged to let their deposits lie and grow, taking loans against them, instead of withdrawing the whole amount saved as soon as it matures.

The hundi box system.

356. The savings deposits can be collected in hundi boxes, in ordinary savings accounts, or by the issue of savings certificates. The second method is perhaps unsuitable where most members are illiterate. The hundi box scheme introduced in some districts is a praiseworthy attempt to bring about small accumulations. It is right in getting the collection made in any denomination however small; deposits with a certain minimum limit are not for those whose temporary surpluses are usually small. It is also right in making disbursement possible at fairly frequent intervals. And it is a reasonably cheap scheme, since the boxes are cheap and the administration and accounting do not necessitate additional staff. But its progress is slow and it appears to us that the basic scheme may be variously elaborated and diversified to suit different local conditions and different types of co-operators. The hundi box is expensive if well-made and too easily raided if ill-made. It provides an opportunity for gathering the society and promoting co-operative feeling if all deposits are collected at the same time; but the collection and accounting involve a little trouble.

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Introduction of savings certificates.

357. A suggestion which we would like to make and which might suit certain societies is to substitute the savings certificate for the hundi box. The hundi box has the advantage that it will receive even pies; but it can be forced; it requires special arrangements for accounting, and it does not talk. An active secretary with the power to issue savings certificates might be more effective. The savings certificate may be made attractive, intelligible and nearly fool-proof even among the illiterate and can be made practically self-accounting. The savings certificates are for a specified amount and every one is serially numbered. Each is itself a receipt for the amount specified, and the secretary only has to account for the number of sheets or books issued to him. We think they can be made of such a size that the secretary can always carry some with him and issue them whenever he finds a member with a little he wants to save. The counterfoils of the sheets or books form the account of the deposits; only totals need be entered in the cash book. The certificate in the possession of a member forms his account. And, we think that if the certificates are made negotiable within the society, the member can, in case of need, either find another member who will take some of his certificates off him or return some of his certificates to the secretary to secure immediate accommodation, the secretary being allowed to keep all the deposits made in this way in a special fund for short-term emergency loans. We suggest that interest need not be paid unless the certificates are kept a certain time—say three months or six months; and if certificates are presented for payment before that time, the society might take a small discount, which would both encourage members to let their deposits lie and meet the small incidental charges.

Denominations should be small—even two-anna and four-anna certificates would be proper in some societies—and there should be a distinct colour for each denomination. To save much scriptory work the certificates can be printed in perforated sheets with a single counterfoil for the whole sheet. The panchayat of a society can issue whole sheets to the secretary and take his receipt for them; he then has to produce on demand all the unused certificates and cash to the value of the certificates issued (or pro-notes if he is allowed to use the cash for petty loans). The counterfoil of the sheet serves as the secretary's account; the member's account is the bundle of certificates in his possession. By their colour and number even the illiterate can arrive at the total of their holdings. On producing certificates the member can obtain his money or a loan on the security of his deposit without any fuss or delay. We think savings certificates for different purposes and terms should be distinguished by marked differences of design; but care should be taken to avoid designs which would make printing costly.

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We may add that the savings certificate is only one among many devices. It seems adapted to stores societies, which could pay off the certificates in goods at a discount on the prevailing prices. The figures of sales show that in stores in this Province sales are highest in October, November, and January when the people are accustomed to celebrate their chief festivals with a certain freedom of expenditure; the savings certificates could be issued to provide for expenditure on these occasions.

Collection of savings in kind.

358. We note that the Royal Commission on Agriculture in India has suggested that valuable stimulus to thrift would be given if every important marketing society or a co-operative credit society receives deposits or where it is not possible, a branch of the post office savings bank is opened, so that cultivators after disposing of their surplus produce, may be induced to keep at least a part of the sale-proceeds as a deposit instead of spending it in the purchase of ornaments or for any other non-productive purposes. In view of our recommendations for the extension of village credit societies and the organization of marketing societies at all taluk headquarters or important marketing centres, we suggest that efforts be made by credit and marketing societies to induce the ryots to deposit a part of their sale-proceeds with them. Credit societies may induce members to contribute savings in kind out of each harvest. The sale-proceeds of such contributions made in kind should be credited to the savings accounts of the members concerned.

Propaganda in favour of thrift.

359. We suggest that village societies and urban societies—should set aside an important day as a " thrift day " and celebrate it in a suitable manner through the distribution or the opening of hundi boxes and undertake a vigorous " thrift drive " through magic lantern lectures, bhajana parties or distribution of small pamphlets (in the language of the locality) on the advantages of thrift. We feel that constant propaganda and education is necessary in rural areas to popularize thrift and savings and should form an essential duty of all supervising and inspecting agencies.

Savings in urban areas and post office savings banks.

360. The urban classes including artizans have varying degrees of capacity to save as well as facilities to save. Commercial and business men, wage-earners, professional and other middle classes prefer to invest in post office savings banks, postal cash certificates, Government securities, joint stock banks, commercial and industrial companies, stock and share market, etc. But the most popular agencies for the middle and lower middle classes are the post office savings banks, postal cash certificates and co-operative banks and societies. The post office is within the reach of men of all classes of urban population, who

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are generally its customers. Investments in the post office represent the savings of the upper middle and middle classes people including Government servants. While the post office savings bank deposits represent the current accounts of these people, the cash certificates represent their fixed deposits. In all important urban and semi-urban areas facilities for putting savings in post office savings banks are easily available. The post office being run by Government, enjoys the public confidence in a greater measure than any other organized institution. The increasing popularity of the postal savings bank accounts is evidenced by the increase in the number of accounts and the amount of deposits from year to year. So far as this Province is concerned, we notice that, while in 1933–34 the balance at the end of the year was a little over Rs. 4 crores, it exceeded Rs. 5·87 crores in the year 1937–38. Similarly, the number of accounts rose from about 479 thousands to about 554 thousands during this period. The average balance to the credit of each depositor rose from Rs. 84·7 to Rs. 105·9. There has also been a steady rise in the total amount of postal cash certificates but the investments in these certificates relate mostly to the richer, well-to-do and upper middle classes. The Indian Central Banking Enquiry Committee made a number of recommendations for extending the usefulness of the postal savings banks. It is not necessary for us to go into the matter here; we will only content ourselves with drawing attention to them.

Difficulties involved in the transfer of postal savings banks to Provincial Government.

361. We are here concerned only with the question which has been referred for our consideration, namely, whether it is possible to transfer the control of the post office savings banks organization of the Central Government in this Province to the Madras Government, so that the organization might be utilized for the full benefit of the villagers. We are aware of the criticism in certain quarters that the funds collected by the post office savings banks are not utilized for local development and that if the management of these banks is provincialized, the funds collected might be available for local purposes. We find there is also a feeling that the Provincial Government has no inducement to develop the post office savings bank business by carrying on a campaign in its favour, because the funds are not available for utilization on productive schemes of development within its territory. It is felt that the Province is in need of large sums of money for its many-sided activities and that it would be desirable from all points of view that the Province should raise its own capital by encouraging savings and investment through the post office savings banks managed by it. We have given our careful consideration to the suggestion and feel that as the number of post offices cannot be increased without enormous cost, as there is already an efficient staff for the maintenance of these accounts,

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for inspection and control and as there are administrative difficulties in the way, we cannot support the proposal for the provincialization of post office savings banks.

Role of central banks and urban societies in the scheme of savings.

362. Co-operative urban banks and central banks constitute an important deposit-collecting agency in the Province, and have attracted considerable amounts of deposits of all kinds—fixed, savings, current, etc.—from members and non-members. The total deposits held by central banks on 30th June 1939 amounted to Rs. 252·56 lakhs while those held by non-agricultural credit societies (i.e., urban banks and credit societies and employees' societies) were Rs. 241·05 lakhs. So far as urban banks and credit societies and employees' societies are concerned, the following figures may be of interest :—

	RS. LAKHS.
Total working capital	417·43
Share capital	92·28
Deposits—	
(*a*) Members	107·95
(*b*) Non-members	133·10

The share capital represents the savings of members and is about 22 per cent of the total working capital; the deposits of members and non-members constitute 58 per cent of the total working capital. It is evident then that the urban co-operative societies and banks and co-operative central banks have attracted a fair proportion of the savings of upper middle and middle classes and persons of limited means by the many facilities they have created.

Promotion of thrift and savings among artizans and men of limited means.

363. We suggest that the urban banks should undertake a vigorous and sustained thrift campaign and introduce as we have suggested elsewhere, daily, weekly, fortnightly or monthly deposits in order to encourage and facilitate savings amongst labourers, wage-earners, artizans or industrial workers. We think that in the towns too savings deposits can with advantage be linked with particular purposes. For instance, long-term savings deposits for the purchase of houses and short-term deposits to meet trading needs are equally desirable. Again, wage-earners, labourers or artizans should be prepared to face emergencies—unemployment due to illness or loss of a job and the like. Urban societies should institute the system of savings certificates, hundi boxes, etc., to suit their requirements.

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If petty savings and petty loans are made to work hand in hand, we think, a large class of co-operators can be substantially benefited. Societies composed largely of members drawing a small but regular salary, and societies composed of members getting daily or weekly wages but subject to periods of insufficient employment or to other fluctuations in their earnings might achieve excellent results by making available to the members with temporary deficit the temporary surpluses of other members. We do not think it necessary that the savings should go on increasing; provided the loans given were small and rapidly repaid, a small fund could, be turned over many times a year and would provide relief to members who would otherwise take " bazaar credit " or money-lenders' loans at a high rate of interest. In our opinion, the aim should be not to keep a member's account growing but to build up his reserves to the point at which they cover all his emergent needs in normal times. We suggest that to prevent this reserve being dissipated, it should not be refunded to the member in his time of need but kept as security against a loan, that while the loan is outstanding, he will be paying in interest only the difference between borrowing and lending rates (perhaps 1 per cent per annum), and that in repaying the loan, he will be restoring his reserve. The system would resemble that of the provident fund and the advances made out of it.

The successful working of chit funds in the Province suggests that regular monthly payments can be insisted on. But since the reserve has something of the character of a sinking fund, we think the more flexible system whereby payments into the savings fund would be adjusted to the varying surpluses of different periods may be distinctly preferable. The question is whether the accounting and management of the fund would be excessively difficult. We do not see any reason why it should be. The savings banks of Post offices are not worried by uncertain times and sizes of deposits. We feel that co-operative savings banks dealing as a rule with much smaller numbers of depositors, should have no difficulty in handling the accounts.

Thrift among Government servants and employees of firms, mills and others.

364. We have already suggested that, so far as Government servants and employees of firms, mills and others are concerned, compulsory thrift funds should be created and deductions made from their pay and wages according to their pay or wages and recommended that there should be compulsory insurance for Government servants and compulsory provident fund for employees of firms and that members of the families of Government servants (who are members of co-operative societies) should be supplied with hundi boxes or home safes in order to stimulate thrift amongst them. We think the enforcement of these suggestions will go a long way to promote savings among them. We learn that the State Savings Bank of Victoria opened a service department the

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object of which is to create a saving habit in the working classes. Group savings clubs are said to have been established in factories and business-houses to enable wage-earners to deposit in the bank their earnings without having to visit the bank. During 1936–37, the Bank is reported to have supplied to owners of factories, firms, etc., over eight million pay envelopes conveying thrift messages to stimulate among their employees the habit of saving small sums out of income. We gather that employees received their pay in these envelopes and that messages keep the object of the bank under constant notice.* Are not these devices a lesson to co-operative societies in the Province?

It has been suggested that thrift and the use of money should be included in the curricula of studies in schools and colleges and that savings associations might be started in educational institutions or as adjuncts to scout organizations. We suggest that this may be examined by the Government and the Education department.

We learn that, realizing that " the school child is the most fertile soil where the seed of thrift can be sown " and that a banking habit should be created in the school children some of the State Savings Banks in Australia have organized in schools small banks or branches of " Penny Banks " where, we learn, a sum as small as one anna is also accepted for deposit. We suggest that some of our central or well-run urban banks may explore the possibilities in this direction. We stress that the object should be not so much accumulation of money as the teaching of thrift to boys who will in due course bear the burdens of life and of the community.

Importance of small savings in co-operative finance.

365. We agree with the view that the co-operative movement is a " thrift-producing movement." It has great potentialities for stimulating thrift and savings among the agriculturists and persons of small means and for bringing into active productive use individual savings which, insignificant in themselves severally, are important in their total. Small individual savings are of considerable financial importance to co-operative organizations because " with the increase of the ratio of small savings the problem of high liquidity will become easier."† We strongly urge that all co-operators should show more imagination and enterprise in developing devices for stimulating thrift and savings among the increasing number of men and women coming within their influence.

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* State Banks for India—Dr. Anwar Iqbal Qureshi.

† Page 271—Co-operative Banking—N. Barou.

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CHAPTER XV.—SUPERVISION, EDUCATION AND TRAINING.

A. Local Supervising Unions.

Present position of Local Supervising Unions.

366. The early beginnings and the progressive rise and decline of co-operative supervising unions have already been referred to. Co-operators in this Province began with the unions which were both supervising and guaranteeing unions; but the guaranteeing functions were soon discarded and unions which only supervised gradually developed. The arrangement of mutual supervision of societies by themselves through local unions has been well conceived and is essentially co-operative in character. There can be no better and economical arrangement for the development and mutual supervision of village societies, but in actual working the ideal is found difficult to attain. One of the former Registrars of Co-operative Societies (Mr. D. N. Strathie) has stated* " my own view is that the supervising union system is an excellent one in fact, the best possible—if only suitable men are available to work it. It is impossible to overestimate the great good done by the old-fashioned union President, the man who knew the needs and character of every member in the area and who was universally respected. But if such a man is not forthcoming, if union office-bearers are themselves defaulters, if they take benami loans and commissions, then I would have little hesitation in dissolving them and entrusting supervision to the bank. I believe that in the absence of local gentlemen of outstanding personality and integrity, supervision by the creditor bank has a better chance of success."

For some years now, the number of unions has shown a progressive decline; from about 400 unions in 1930–31, the number came down to 252 at the end of the year 1938–39. This has been brought about by liquidation or amalgamation of unions, while in a very few districts the unions have been temporarily suspended. The working of many others is far from satisfactory. We gather that several causes account for the present unsatisfactory condition of unions—a general dearth of disinterested and enthusiastic workers, the difficulties of their being elected to the governing body of unions even if men of this quality are available, the presence of representatives of bad or useless societies on the governing body of unions, dormancy of affiliated societies and their lack of interest in the working of unions, ineffective control or lack of control over supervisors, or in some cases, dual control over them by unions and central banks, prevalence of local factions or party politics, inadequacy of the supervision fund and the

* Page 25 of the Annual Report on the working of co-operative societies in Madras, 1931–32.

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consequent cut in salaries of supervisors resulting in discontent among them, concentration of functions of recommendation of loan applications of affiliated societies and transfer and control of supervisors in central banks with the resulting disappearance of initiative among members of governing bodies of unions, lack of missionary spirit among supervisors.

Differing views on the utility of unions.

367. It is true that, generally speaking, the operation of one or more of these factors has proved detrimental to the efficient working of unions, and it is because of this, that central banks have practically taken over the functions of supervision and the appointment and control of supervising staff. The theory and practice that supervision should be divorced from finance has thus been gradually and silently abandoned, and will no longer hold the ground in view of the recommendation of the majority of the members of the Committee in favour of the elimination of individuals from central banks. And there is a section of co-operative opinion which considers that in view of the abandonment of this theory there is hardly any need for the existence of supervising unions as separate entities.

There is also a school of thought which pins its faith to the utility of local co-operative unions as agencies of mutual supervision of societies. It points out that in a few districts, unions are working satisfactorily and perform useful functions and that local conditions in the districts concerned do not warrant their abolition or extinction from the co-operative world. In its opinion the union system constitutes an admirable arrangement to ensure mutual supervision of societies and if some of the unions have not done well, it is not due to any inherent defect in the constitution of unions but to factors extraneous to it. The remedy should then lie not in replacing the unions but in rectifying, strengthening and revitalizing them.

Decision for retention or abolition of unions to be left to central banks.

368. We have considered both sides of the question and hold that in view of the difference of opinion, experience and varying local conditions in the different parts of the Province, the question of retention or abolition of local supervising unions in the future should be left to the decision of the central banks concerned.

Suggestions for improved working of unions (wherever retained)

369. We may, however, make a few suggestions here to improve and strengthen the unions wherever, it is proposed to retain them :—

(i) It would be well to provide in the by-laws of the union that only representatives or delegates of 'A' and 'B' class societies should be elected to its governing body

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which may consist of not more than five members; provision may also be made for co-optation of one or two local men with leisure and disposition to do public work.

(ii) It is equally necessary to repose greater confidence in and give greater powers of action to good unions and increase the measure of their local influence over the societies affiliated to them.

(iii) Supervisors should be entrusted with a managable number of societies, and as a rule, no supervisor should be kept in a union for a period exceeding three or four years.

(iv) Either the President or the Secretary of the union should be invariably resident at the union headquarters.

(v) The conditions of service of the supervising staff should be improved and put on a satisfactory footing so as to secure contentment and efficiency; incompetent or inefficient men should be immediately replaced by qualified and able men.

(vi) If the working of good unions is hampered by lack of funds, central banks should arrange to give them the necessary financial help; in fact, most central banks have been giving them such help. There is no reason why live supervising unions should not prove to be of greater service to the movement where conditions are suitable, as there they are one of the most promising ways to increase co-operative knowledge among members of societies and to give them a wider co-operative outlook. Apart from their present duties, unions can, in our scheme of reorganization, be centres of co-operative education and enlightenment, if they choose to be, and provide a medium for an exchange of thought and notes on the new co-operative experiments which may be tried in the future, and for the dissemination of co-operative knowledge.

Decision as to constitution of supervision committees left to central banks.

370. With the abolition of district co-operative federations and the state of inertia in which many of the unions have found themselves, some of the central banks have, in addition to executive committees, organized administrative sections or committees of supervision and appointed executive officers to be in charge of them. The object of the administrative section or committee of supervision is to develop, assist and co-ordinate the work of supervising unions and to control the supervising staff. We have been asked to say whether there is a need for the constitution or continuance of these two committees and whether it would not be economical for both the functions to be performed by one committee. On a consideration of the matter we are of the opinion that the question of the constitution of these committees may be left to the central banks for decision according to their local requirements.

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Nomination by central banks to the governing body of unions.

371. It has been suggested that in order to promote the efficient working of unions, influential local men representing central banks may be nominated to the governing body of the unions. We understand that such nomination by central banks is in vogue in Bombay. The idea is that by the introduction of an outside element, unions may be made efficient, independent and disinterested in the administration of their affairs and the party spirit if any might be diluted; it is expected that such men would keep the balance even. We are aware that a system of nomination is opposed to the spirit of democratic organization of co-operative institutions and is not generally held in favour. It may, however, be argued that the nomination of one or two men to the governing body of the union by the central bank which is interested in its working and of which the union is a member, is not un-co-operative. We find from the replies received to the questionnaire that there is a large body of co-operative opinion in favour of the suggestion being given a trial. We are not as a general rule in favour of nomination. We see however no objection to a central bank nominating one or two individuals with the consent of the unions.

Appointment of supervisors as secretaries of unions not favoured.

372. Another suggestion made is that a supervisor may be made to serve as the secretary of the union to ensure efficient and quick despatch of routine work. We find that a large body of opinion is opposed to such an arrangement. An alternative suggestion made is that an employee of the central bank other than a supervisor may be made the secretary of the union. Though we see that there are advantages in some arrangement of this kind, we think that in the present financial condition of unions and the narrow margins on which central banks are now working, such appointment is not within the range of practical politics.

Supervision Fund.

373. There is no uniformity in the levy of contributions towards supervision fund. Societies contribute to this fund generally at the rate of 8 annas on every sum of interest *earned* by them on every hundred rupees of loans given to members while central banks contribute at the rate of $6\frac{1}{4}$ per cent of the interest *realized* by them on all loans *granted* to societies. While most central banks make a contribution of $6\frac{1}{4}$ per cent on interest realized, a few banks contribute at the rate of 4 annas, 6 annas, 8 annas or Re. 1 as the case may be; one central bank makes a contribution of $12\frac{1}{2}$ per cent on interest realized, societies making no separate contribution.

A suggestion has been made that the system of levying contributions from societies for purposes of supervision may be discontinued and that central banks may be directly made responsible

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for the payment of both the indoor and field staff. In point of fact, central banks now make up any deficiency in the amount of the supervision fund. The system of contributions to the supervision fund separately by societies and by central banks is intended only to keep the expenditure on unions within limits and to check extravagance. We do not propose to interfere with the existing arrangements; we would leave the mode of levy to the discretion of individual central banks.

B.—Linguistic Unions and Provincial Co-operative Federation.

The present constitution and objects of Provincial Co-operative Union and Linguistic Federations.

374. The Provincial Co-operative Union as at present constituted consists of a number of societies, language federations, local unions, central banks, urban banks, land mortgage banks, non-credit societies, etc. The constitution of the two language federations, the Andhra Sahakara Sammelanam and the Tamil Nad Co-operative Federation, is much the same; the former consists of primary societies, institutes, unions, central banks, urban banks, individuals, etc., and the latter has as its members central banks, unions and individuals. The object of the Provincial Union as well as the linguistic federations is generally to promote co-operative propaganda and education by all possible means.

Formation of four Linguistic Co-operative Unions recommended.

375. We think that the time has come for a reorganization of these linguistic federations and the Provincial Union, and for a demarcation of their spheres of work in order to avoid the overlapping of co-operative effort and activity. The work of the Provincial Co-operative Union, as it is now constituted, has not borne as much fruit as was hoped. The training classes for panchayatdars and the peripatetic institutes have had neither the support nor the success that might encourage us to recommend a continuance of the existing arrangements. We think that a much more active policy is needed and that a measure of decentralization is called for not only by general co-operative opinion but by the geography and ethnology of the Province. We have already referred to the feeling in the country for a territorial reorganization of the province on a linguistic basis. Whether or not such reorganization will prove feasible politically is a matter with which we are not concerned. Co-operatively, it is already a fact to be reckoned with. We feel that the Provincial Co-operative Union should be reorganized to suit the conditions of the Province. We, therefore, recommend that there should be four linguistic unions—one for each of the principal language areas, Tamil, Telugu, Kanarese and Malayalam—and that they should be entrusted with

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the functions of the present Provincial Union in the field of propaganda and education. They should formulate and participate in schemes for the education of members of village societies and training of office bearers of societies in business methods, accounts, conduct of meetings, etc. They should arrange for regional conferences. They should take an active and live interest in the development of the movement in their respective linguistic areas.

Federal constitution of Provincial Union suggested.

376. We consider that the Provincial Co-operative Union should have a federal constitution and be composed of representatives of the four linguistic unions we have recommended and be styled as Provincial Co-operative Federation. Its functions should be the co-ordination of the work of linguistic unions in the matter of co-operative propaganda and education and the management of co-operative training institutes. It should publish a journal in English, while each linguistic union may publish a journal in its own language. The reorganized Provincial Co-operative Federation will be a meeting place for leaders of the movement to discuss matters of common interest affecting the movement; it will convene provincial conferences for exchange of thought and formulation of policies on important matters; it will conduct enquiries into the various aspects of the working of different types of co-operative institutions and publish the results in the form of bulletins and notes for the use and enlightenment of co-operators; it will promote the cause of co-operative literature; it will be an instrument of progressive ideas. It will also discharge such central functions as are now entrusted to it.

The success of co-operation depends very largely on the zeal and initiative of individuals. We think the Provincial Co-operative Federation should make provision for co-opting individuals to it and giving them the rights and privileges of members. We hope that the leavening of individuals, who will be both students and missionaries of the movement, will prevent any tendency to inertia.

C.—Co-operative Education.

Need for a plan of co-operative education and training.

377. Elsewhere we have given an account of the history and present state of co-operative education in this Province. The answers to our questionnaire reveal a general dissatisfaction with what has been done. Want of literacy has been a great handicap; but lack of understanding of co-operative principles and methods has been just as common. That there is need, therefore, for intensive co-operative education and training for all ranks of co-operative workers, paid and honorary, "as units in the co-operative army able to work intelligently, individually and in

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groups, for the realization of co-operative ideals " is admitted. We feel that the various piecemeal arrangements made from time to time should be superseded by a scheme planned as a whole.

Scope and content of co-operative education.

378. The scope of co-operative education should be determined by the ends in view. If co-operative education is to be that part of the whole system of education which teaches the necessity and the methods of self-help and mutual help, the end in view is to foster co-operative qualities of character and the capacities needed for practical co-operation. If the aim of co-operative education is to be more limited and more practical, it can be to improve the working of co-operation as a system of business and living, with the advancement of rural reconstruction as a special object in a Province whose population lives in villages. If we make our aim still more practical though still more limited, we endeavour to increase the efficiency of co-operative leaders, employees and officials. This is not an end in itself but a necessary means towards the attainment of our more general and vital aims. In the present stage of development, it is easier to train workers intensively than to instruct co-operators generally, and easier to instruct co-operators than to make the whole social and economic system co-operative. We may strike a compromise between idealism and practicality if we aim at improving the working of the whole co-operative movement but making more effort at first to train a few intensively.

Constitution of a Government College of Co-operation.

379. After a prolonged discussion, a majority of us have come to the conclusion that apart from the education of members and panchayatdars of village societies, education in co-operation should be imparted through two separate agencies, a College of Co-operation organized and managed by the Government and two co-operative training institutes under non-official management, one for the northern districts and the other for the southern districts, so that adequate provision may be available for the training of several grades of official and non-official employees for service in the movement. The college is intended to impart a specialized course of co-operative education to aspirants for employment in the Co-operative department and for the higher posts in big urban banks, central banks, the Provincial Bank and other co-operative institutions such as secretaries, managers, accountants, executive officers. The college should be affiliated to the University of Madras, which will conduct examinations and confer degrees upon those who pass out of the college. The qualifications for admission should be a " pass " in the intermediate examination or higher qualification. We are not in favour of the college undertaking the teaching of commerce; we prefer that it should concentrate on co-operation.

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Course of study and syllabus.

380. The courses of study and syllabus will have to be settled by the academic authorities of the University and we do not therefore propose to make any detailed recommendation about the length of the courses and the nature of the curriculum. What we have in view is a course of study which may extend up to two years and a syllabus which may comprise the following subjects :—

Part I—Economics.

(*a*) General economics (including industrial organization and statistical methods).

(*b*) Rural Economics.

(*c*) Sociology.

Part II—Co-operation.

(*a*) History and principles of the movement (credit and non-credit).

(*b*) Co-operative Law.

Part III—Technical subjects.

(*a*) Banking.

(*b*) Book-keeping.

(*c*) Auditing.

(*d*) Elements of commercial law.

Part IV—Practical training.

Visits to co-operative institutions, lectures on rural sanitation, village panchayats and village administration and land revenue administration.

Part V.

(*a*) Essay in English or in the mother-tongue.

(*b*) *Viva voce* on co-operative organizations in the mother-tongue.

The syllabus we have outlined above is fairly comprehensive and is drawn up with due regard to the new orientation of the movement in which the co-operative societies of the future will have to deal with the various aspects of the life of the villager. In the course of our discussions, a suggestion was made to impart instruction to the students in their mother-tongue. This is no doubt a laudable ideal but we are afraid that in present conditions the attainment of this ideal is not possible. We have, however, included an essay either in English or in the mother-tongue of the candidate and a *viva voce* in the mother-tongue on co-operative matters so that the candidate may be trained to use his

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mother-tongue effectively as the vehicle of thought and medium of communication with the people.

The place which practical training should occupy in the scheme of studies also engaged our attention. A suggestion has been made that a dose of practical training should be given to the candidates who have been selected for admission to the college before they commence their theoretical instruction. We are not convinced of the utility of such preliminary training. We suggest that practical training may be usefully combined with theoretical instruction. During vacations the students may be taken in batches to typical co-operative institutions to study their working in the light of the lessons they have been taught in the college; or one or two days in the week may be set aside for practical training in co-operative institutions. What we suggest is that the practical course may be simultaneous with or subsequent to the completion of the theoretical course or even the taking of the degree by the candidate. We would leave the final decision to the authorities of the proposed college and the University.

Management of college — Government control versus non-official control.

381. We have suggested that the college should be a Government College, i.e., a college organized, financed and controlled by the Government but the Government must be helped in the administration of the affairs of the college by an *advisory* council. We have made this recommendation by a majority. The principal debate was over the question of control. One of our members, Sri V. Ramdas Pantulu, fought strongly for a system entirely freed from State interference; he and a minority of members regard it as essential that co-operators should have independence of thought and expression and think that the initiative and capacity of co-operators is enough to set up and manage a system of co-operative education with or without the help of Government money. But the majority of us think he overstresses the danger of Government's—particularly a popularly elected Government's—restriction of free thought and academic enthusiasm and undervalues the aid of Government specialists and the security given on the financial side by Government support. No one would like that when once the college is started, its even growth should be interrupted by lack of funds or financial support. We have in our midst private colleges or educational institutions struggling for existence for want of funds and we do not wish the college when it materializes to be in a similar plight. In particular, we think that the proposed College of Co-operation will be stronger and better equipped for its important task if it is a Government College. The syllabus and practical training which we would like to see imparted are so comprehensive that they require the collaboration of all Government Departments concerned with rural welfare and such collaboration will be facilitated if the college is run and

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managed by the Government. We think the best teachers are more likely to be secured if they have the advantages of Government employment, security of tenure, freedom from interference caused by private influences, regular payment and adequate pension. We do not think they will be prevented from teaching the truth as they see it.

Constitution of an advisory committee.

382. On the other hand, we think it very desirable that the authority in charge of the college should be well informed of general co-operative opinion and that tendencies to bureaucratic rigidity should be held in check. For this purpose we have decided that no more is needed than an advisory committee. Two other views were put forward; first, that the committee should be a governing body, with the Government, the University of Madras, and the co-operative movement all represented and all having a voice in the management of the College; secondly, that Government control should not be direct, but should be such as the State exercises in England over such bodies as the B.B.C., the college being constituted a Public Utility Corporation and the governing body being made responsible to the legislature but free of departmental control. The majority of us feel that at the present stage of development it is just departmental control that is needed. This is not because we think Government alone will have to be responsible for the financing of the institution; we hope Government will undertake to cover any deficit, but we think that enough students will be attracted by the institution to make it self-supporting in most years. Nor is it because the college will serve as a recruiting-ground for the Co-operative Department, though it seems likely that most of the students will be required to fill vacancies in the department. The overriding consideration is that the teachers should be satisfied with the conditions of service and we think departmental control is the best guarantee for that satisfaction.

Constitution of two co-operative training institutes.

383. We also recommend the establishment of two co-operative institutes, one for the Telugu districts and another for the southern districts. They should undertake the technical training of what we may call the " professional co-operators," that is, men who have to manage co-operative institutions and conduct schemes of rural reconstruction; that is to say, they will give co-operative education and training to candidates so as to make them fit for service as supervisors, clerks and village guides. We suggest that the co-operative institutes should be entrusted to non-official management and that the Provincial Co-operative Federation in consultation with the linguistic unions may run them; the Registrar and an educational expert will be at liberty to help the Provincial Co-operative Federation with their advice on matters relating to the conduct of the institutes. We expect that the

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institutes will be financed by voluntary contributions by co-operative organizations—central and urban banks and other institutions—in the areas which they are intended to serve. Ordinarily the tuition and examination fees collected from the students may be adequate for their expenses. The fees and local resources may be supplemented by subventions which the Madras Provincial Co-operative Bank will, we hope, be willing to give. We do not think that normally there will be any need for State help, but if an occasion arises, we recommend that the Provincial Government may make suitable grants to the institutes to meet any deficit in the funds required for their equipment and maintenance. We think that the minimum qualification for admission to the institutes should be somewhat lower than that for the college; we think Matriculation or the S.S.L.C. should be the minimum qualification. The instruction should preferably be in the language of the area in which the institute is located and discussions by students in their own languages should be encouraged. The course of training may extend to one year (including practical training). The subjects need not be so comprehensive as those for the college, but the candidates require more time and better instruction than can be given in summer schools or short courses. The subjects of study may include co-operation and co-operative law, banking practice, elements of book-keeping and auditing, rural economics, sanitation, village panchayat and revenue administration. The institutes should also provide for field work. We think that the education and training in the institutes should have a rural bias and rural atmosphere which so many desire and so few are able to create.

We suggest that the institutes should periodically arrange to hold summer schools or refresher courses for office-bearers and employees of co-operative institutions within their jurisdiction and organize special extension lectures for the general public. Through their educational work, the institutes should assist in making the co-operative movement strong and self-reliant.

In making suggestions as to the courses of study, we should not be understood to recommend a rigid system of instruction. The authorities of the college will have to prescribe the curriculum for the college in consultation with the University; Provincial Co-operative Federation will have to prescribe for the institutes We think it desirable that examinations should be organized in such a way that uniform standards are maintained throughout the Province for degrees, diplomas and certificates. A suggestion has also been made that there should be enough variety of subjects and of methods of instruction to allow of different qualities and intensities of training for each class of student and that the college and the institutes should, as far as possible, combine a nucleus of compulsory subjects, with a choice of optional subjects, and add to lectures and bookwork as much discussion, demonstration and field work as its circumstances permit. We suggest that these be kept in view in prescribing the course and subjects of study.

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Suggestions for the spread of knowledge in co-operation.

384. We feel that apart from the college all co-operative education should be effected through co-operative rather than State effort. We have just suggested that the two training institutes for the lower courses of co-operative education should be run by the Provincial Co-operative Federation. We think that similarly the linguistic unions may be entrusted with the education of members and panchayatdars of village societies. We are aware that some arrangements are already in force for this purpose and we understand that some changes are contemplated in the scheme of education of members of village societies in the principles and practice of co-operation and of training of panchayatdars and officers of village societies in the methods of account-keeping, conduct of business and the practical aspects of the working of societies. We are of the opinion that all efforts should be made for the sustained and wider diffusion of co-operative knowledge among villagers.

We think further that the Government should formulate other measures for spreading a knowledge of co-operation, and towards this end in view, we make the following suggestions :—

(1) Government should introduce a book on co-operation and rural uplift written in easy and popular style for non-detailed study in high schools run by them or with their grants. It is necessary that some instruction on co-operative ideals should be given to pupils in schools, at least at the high school stage. The book should be in the language of the area in which the high school is located.

(2) An attempt should also be made by the University to introduce suitable text-books on co-operation for the college courses for non-detailed study. The non-detailed text-book we have in view is not in the nature of specialized or scientific thesis on the subject; what we contemplate is a popular and readable rendering of the subject, which will be a compromise between the academic and technical aspects of the study.

(3) We suggest a greater co-ordination of effort between non-official co-operative agencies and the Co-operative Department in the matter of co-operative propaganda and education. It should be one of the essential duties of the Department to arrange popular talks in different centres, particularly in rural areas, on co-operative education and rural reconstruction. We consider that the intensive and continuous teaching of the rural population in co-operative theory and practice, thrift and self-help, and popular talks on these subjects are as important as the training of inspectors and supervisors. In the process, magic lantern and cinema, maps, charts and graphs can be utilized with advantage. Co-operation should be woven into the very life of the villagers by this continual process of popular education.

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CHAPTER XVI.—STATUTORY FUNCTIONS OF THE REGISTRAR.

A. Audit.

Present arrangements for audit.

385. In paragraph 55 we have described the existing arrangements for the audit of co-operative societies in the Province. Briefly, the present position is that four societies in the Madras City are audited by certified auditors authorized by the Registrar and 65 societies by the staff of audit unions. There are at present three audit unions in the districts of Coimbatore, South Arcot and Madura. Forty-one societies are under the audit schemes obtaining in the Madras City and Salem. (The audit scheme is an informal arrangement whereby a number of societies agree to get their accounts audited and to employ auditors exclusively for their audit and to levy fees among themselves on some acceptable basis towards the cost of the staff of Government auditors employed. The auditors are under the control of the Registrar.) Excepting these, all the other societies are audited by the departmental staff, all of whom have had training in audit or have passed departmental tests in co-operation, audit, banking and book-keeping.

We have considered the question whether any change is called for in the existing arrangements for audit and proceed to make our recommendations.

Need for continuance of the statutory responsibility of the Registrar for audit.

386. Audit is a statutory responsibility of the Registrar under section 37 of the Madras Co-operative Societies Act. The Government through the Registrar are under a legal responsibility to ensure that all societies are audited each year either directly by their own officers or by competent auditors authorized by the Registrar for the purpose. We consider that the statutory responsibility of the Registrar in this regard should be maintained.

Constitution of separate administrative and audit branches suggested.

387. The departmental inspectorate consists of auditors, administrative inspectors, liquidation inspectors, sale officers, inspectors for scheduled classes societies and inspectors for non-credit work. The auditors consist of both junior and senior inspectors, the former being in charge of audit of all village credit societies or urban societies, and the latter attending to the audit of all central banks big urban banks, land mortgage banks or special types of societies. All the inspectors including the auditors are directly under the disciplinary control of the Deputy Registrars in charge of districts (and of Assistant Registrars in the case of a few districts like

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Nellore, Bellary, Kurnool and West Godavari). The inspectors are interchangeable from one kind of duty to another, and for reasons of efficiency or administrative convenience, such interchangeability is necessary. The important question from the point of view of audit is whether it is proper that the administrative control of auditors should as hitherto vest in the district co-operative officers. It seems to us that the auditor should be free from official or other local influences, if he is to do his work fearlessly and discharge adequately the responsibility cast on him under the Act. As it is, the district co-operative officer is responsible for both the administration of the movement in the district and the audit of societies. It may sometimes happen that an independent auditor may have to disclose the defects or weaknesses in the administration of societies; or again, when a local officer comes to acquire likes and dislikes his prejudices may unconsciously influence his auditors. We have come to the conclusion that the entire audit staff of the department should be constituted into a distinct branch; that there should be a differentiation right through between the administrative branch and the audit branch of the department except in the person of the Registrar, who will be the head of both the branches.

Appointment of circle auditors.

388. We consider that the auditors, senior and junior, should be placed directly under officers who may be styled Circle Audit Officers of the status of Co-operative Sub-Registrars, who will be divested completely of their administrative functions and employed purely on audit work. It is impossible to deprive Deputy Registrars of the assistance of Co-operative Sub-Registrars who now share their office and executive work. The Circle Audit Officers will form an addition to the existing staff.

It is not necessary that each district should have a district audit officer. At present Co-operative Sub-Registrars issue the audit certificates of all agricultural credit societies and other small societies in the district, ranging from 300 to 600. The whole Province may be divided roughly into twelve circles, each circle having about 1,000 to 1,200 societies in charge of a circle audit officer, who will control the audit staff of the circle, issue the certificates of all societies except central banks and test-audit three or four per cent of the number of societies in his circle. We suggest that each circle audit officer may be given a small staff of a junior inspector, a typist-clerk and a peon.

Appointment of Chief Auditor.

389. To control the entire audit work and the staff in charge of audit of societies in the Province, we recommend that a chief audit officer, who should be a qualified auditor of the status of a Deputy Registrar, should be attached to the Registrar subject to his general control. The chief auditor will, besides supervising and directing audit work, assist the Registrar generally in all

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matters relating to audit. He will arrange for the issue of audit certificates of all central banks and Provincial Societies. We suggest that he may be given the assistance of a senior inspector, a typist-clerk and two peons.

Need for high quality audit of societies.

390. At present the junior inspectors are given training in practical auditing and have to pass the departmental tests in co-operation, audit, banking and book-keeping. We feel, however, that a high quality of departmental audit should be secured and this audit should be done by a staff of inspectors who are adequately trained in audit. For the audit of central banks and urban banks with a working capital of Rs. 20,000 and above, non-credit and other special types of societies liable to pay audit fees, we recommend that the Registrar should employ technically qualified auditors to work in the audit branch of the Co-operative department.

We have considered a suggestion that the Registrar shall maintain a list of qualified registered accountants and appoint one out of a panel selected by the institutions concerned, or alternatively that the institutions concerned should appoint one out of a panel selected by the Registrar. One of our members (Sri P. N. S. Ayyar) has in particular suggested the employment of practising professional auditors for the satisfactory audit of these societies. The representatives of the Society of Auditors have also impressed upon us the need for employment of practising accountants and auditors for the audit of bigger co-operative institutions. We have carefully considered the representations made and feel that to enable the Registrar to exercise his statutory responsibility satisfactorily and to ensure his disciplinary control over the auditors, there should be a full time staff of Government auditors. We think the system of a panel would not under present conditions work smoothly. There is a large body of opinion in favour of the continuance of audit by Government staff, and the flow of money into the co-operative movement is not a little due to this fact. It is not desirable that the confidence engendered by the employment of full-time Government staff for the audit of central or urban banks should, at the present stage of the development of the movement, be allowed to be shaken by any change in the system of recruitment of the staff for audit or by any slackening of the present control over them by the Registrar. We are not, therefore, in favour of private registered accountants being employed from a panel by central or urban banks for the audit of their accounts.

Audit of Provincial Co-operative Institutions by registered accountants and auditors appointed by the Registrar.

391. So far as Provincial Co-operative institutions are concerned, we are of the opinion that the Madras Provincial Co-operative Bank, the Madras Co-operative Central Land Mortgage Bank, the

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Triplicane Urban Co-operative Society, the South India Co-operative Insurance Society and such others should be audited by registered accountants appointed by the Registrar and that they should be subject to the present obligation of submitting to the Registrar the audit reports, returns and statements prescribed by the Registrar in this behalf from time to time.

Cost of scheme of separation to be a charge on Provincial revenues.

392. We recognize that our recommendation for the separation of audit from administration involves extra expenditure to the Government. But we hold that the advantages of separation should outweigh considerations of cost. The major item of extra expenditure would be the cost of the staff of circle audit officers and the chief auditor and the clerical and menial staff proposed for them. As it is, a number of societies are audited free of charge, while central banks and big urban banks and a few other societies pay audit fees, the number paying fees being about 400 out of a total number of societies exceeding 13,000. It is difficult to allocate the extra cost involved in the scheme of separation between exempted and non-exempted societies. If however, the Government consider that a part at least of the extra cost should be borne by the fee-paying societies, we think that they will not grudge to pay it in view of the definite advantages which will accrue from the separation of functions contemplated.

Continuance of free audit of certain classes of societies.

393. We recommend that the present exemption from audit fees should continue and that all agricultural credit societies with unlimited liability, supervising unions, limited liability credit societies and building societies, central banks and land mortgage banks with a working capital of less than Rs. 20,000, purchase, sale and production societies, the value of whose purchases or sale of articles or goods produced does not exceed Rs. 10,000 and other classes of societies, whose gross income in a co-operative year does not exceed Rs. 5,000, and such other societies as the Government may think fit to exempt from the levy of audit fees from time to time should be audited free of charge.

Need for reduction in the rate of audit fees.

394. Central banks and urban banks and other societies, which do not come under the scope of exemption, were levied fees on the basis of their *working capital* till a year ago. As a result of a persistent agitation for the reduction in the scale of fees the Government reduced the scale by 12½ per cent during the year 1935–36. After prolonged investigation and ascertainment of co-operative opinion in this Province, a new scheme was introduced a year ago, the main feature of which is the levy of audit fees, not on the basis of working capital or other financial standards, but on the time taken for the audit of accounts by the auditors. According to this scheme, central banks and urban banks with a working capital of

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over one lakh of rupees are charged Rs. 5–8–0 for each day's work by the auditor (a day of six hours) and urban banks with less than one lakh of rupees of working capital and other societies liable to pay audit fees are charged Rs. 3–12–0 per day.

We hesitate to venture an opinion on the time basis on which audit fees are levied. The present arrangement has been in force hardly for a year, and we have not had enough experience of its working. For the present, our recommendation is that the rate of Rs. 5–8–0 per day in respect of central banks and urban banks with a working capital of over one lakh of rupees which is felt to be heavy by the banks concerned should be reduced to Rs. 3–8–0 and that in the case of other societies, the rate of Rs. 3–12–0 should be reduced to Rs. 3 per day. This recommendation must be read along with our recommendation for the separation of audit from administration and is qualified by the condition that if the separation does not materialize, a change may be necessary.

Exemption of sale (marketing) and weavers' societies from payment of audit fees.

395. Certain special types of societies such as loan and sale societies and weavers' societies have been struggling for existence and require considerable financial and other help for their progress. Sale societies are still in their infancy; the margin between their borrowing and lending rates is very low, partly because of their keen competition with commercial banks as regards "produce loans" and partly because of the need to make money available to the ryots at cheap rates of interest. The Government, too, have recognized the necessity for special treatment of these societies and have given them subsidies for working expenses, or lent them the services of inspectors subject to certain conditions.

Furthermore, the marketing of produce helps the agriculturists more than credit, and the societies which undertake this work should be encouraged. It is needless for us to refer again to the very serious handicaps to which the handloom industry in the country is subject and to the great interest evinced by the Central and Provincial Governments in its resuscitation. The subvention of the Government of India has given a great impetus to the organization of handloom weavers on a co-operative basis. Many of the weavers' societies are still in their infancy and need help. We, therefore, recommend that sale (marketing) societies and handloom weavers' societies should be totally exempted for the first three years of their working from payment of audit fees, and that the period may be extended by a further term of three years in the case of any society, if the Registrar considers that its transactions have not developed to an extent to justify the levy of fees.

Restriction of maximum audit fee to one-fourth of net profits.

396. The question whether societies which are working at a loss should be exempted from audit fees has engaged our attention. We find that co-operative opinion is in favour of such exemption.

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We consider that in any case it seems desirable to lay down that the maximum audit fee levied should not exceed one-fourth of the net profits of societies as declared by the Registrar.

Registrar to be empowered to grant rebate in hard cases.

397. We also recommend that there must be a general power vested in the Registrar to give rebate to any society up to a prescribed limit, if it is found that it is unable to bear the burden of the audit fees prescribed under the rules.

B. Arbitration.

Continuance of present arrangements for disposal of arbitration references.

398. We are of the opinion that the arrangements for the disposal of arbitration references preferred under section 51 of the Madras Co-operative Societies Act by Deputy Registrars or Co-operative Sub-Registrars or honorary arbitrators are satisfactory and that no change in the present arrangement is called for. We note that wherever possible the officers appoint legal practitioners as arbitrators. We endorse the practice.

No change in scale of fees for arbitration references called for.

399. In virtue of the exercise of powers vested in him, the Registrar has prescribed a fee of Re. 1 for each plaint relating to monetary disputes touching the business of co-operative societies when the amount involved in the dispute exceeds Rs. 150 and a fee of Re. 1 for revision petitions and a fee of Rs. 50 for each plaint relating to non-monetary disputes and for each revision petition relating thereto. In our opinion, no change is called for in the scale of fees now levied.

C. Execution.

Department to be empowered to make delivery of possession of properties.

400. We find that on the whole the departmental execution of decrees and awards obtained by co-operative societies has been satisfactory and suggest the continuance of the arrangement.

One difficulty, however, which is felt by societies is that in the absence of a provision permitting the departmental sale officers to deliver to them possession of properties purchased by them in auction, they have to resort to civil courts. We realize that the Co-operative department has for good reasons not so far taken this power. The reasons are—

(1) The department is concerned more with the recovery of arrears through execution of decrees than with the complicated processes involved in the delivery and possession of properties.

(2) It does not have the staff

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(3) Delivery of possession may sometimes be resisted and the Co-operative department has no power to deal with acts of obstruction.

(4) It was considered that a " nation-building " department should be benevolent and peaceful in its methods.

We appreciate the force of these reasons. But we feel that having taken up the task of execution of decrees, the department should be empowered to give delivery of possession of properties. We recommend that it be given the power.

Investing the secretaries of central banks with sale powers not favoured.

401. A suggestion has been made that secretaries of central banks may be entrusted with powers to sell properties in execution of decrees. We are opposed to the proposal.

D. SUPERSESSION.

Historical aspect of the statutory provision for supersession of committees of societies.

402. We have referred to the provision of the Act relating to the supersession of the committees of co-operative societies in paragraph 57 of the report. The need for a statutory provision of this kind was felt when the Co-operative Societies Bill (Bill IV of 1931) was under discussion. The Committee appointed by the Nineteenth Madras Provincial Co-operative Conference suggested a clause for incorporation in the Bill to suspend committees of societies which did not work satisfactorily and to entrust their management to a suitable person or persons. After consideration, it was included in the Bill which became Act VI of 1932. Subsection (5) of this section was amended by the Act II of 1936 so as to do away with the " previous concurrence " of the Madras Provincial Co-operative Bank for the supersession of the committee of a financing bank and to substitute for it only " consultation."

General working of the provision.

We find that on the whole the provision has worked well. From the time the Madras Act VI of 1932 came into force up to 30th June 1938, for a period of nearly six years, the Committees of only 74 societies were superseded and of these, committees of 30 societies were restored, 18 societies were dissolved and the committees of 26 societies were still under supersession on 30th June 1938. It is seen that 58 of the 74 societies were indebted to the financing banks, and the banks concerned agreed to the supersession of committees of 57 of the 58 societies. We find from the figures furnished that there was a definite improvement in the financial position of societies the committees of which were superseded.

When societies go wrong either by reasons of bad management or deadlocks created on account of local factions and parties or an unsound financial position, it is fair to give them a chance to turn

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over a new leaf. We find that only 18 societies were liquidated out of the total number of 74 societies the committees of which were superseded during the first six years the section was in force. If the power had not been exercised it is likely that more of these societies might have been liquidated. A remedial measure in the form of supersession is preferable to liquidation of a society, particularly when the malady from which it is known to suffer is susceptible to curative treatment. In view, therefore of its practical utility, we are in favour of the retention of the power.

Certain safeguards against possible misuse suggested.

403. There is a vague suspicion in certain quarters that this provision may be used or misapplied as a threat to enforce departmental directions or suggestions. To remove such apprehensions we suggest that the section be amended in the following directions :—

Need for previous concurrence of financing bank.

(*a*) The Committee of a registered primary society should not be superseded without the previous concurrence of the financing bank nor that of a central bank without the previous concurrence of the Madras Provincial Co-operative Bank.

Convening of general body before dissolution of Committee.

(*b*) We think it should be obligatory on the Registrar, before dissolving the committee of a primary society or central bank, to summon a meeting of the general body of the institution concerned and to give it an opportunity to carry out a change in the management or reform suggested by the Registrar and that only where the general body proves refractory and does not carry out the suggestions of the Registrar that a dissolution of the committee should be resorted to :

Provided that in special cases including cases where there is a difference of opinion between the Registrar and the financing bank or the Madras Provincial Co-operative Bank, as the case may be, the Registrar may for reasons to be recorded in writing dispense with the procedure laid down, in paragraphs (*a*) and (*b*) above and pass an order of supersession.*

Powers of general body not affected by supersession.

(*c*) It should be made clear that the dissolution of a committee does not take away the powers vested in the general body under the by-laws in regard to administration of the society, in so far as they relate to the passing of the annual administration report, balance-sheet and profit and loss account.

Provision for appeal.

(*d*) We consider that an appeal should be specifically provided against every order of supersession to the Local Government somewhat on the lines of sub-section (5) of section 41 of the

* Sri V. Ramadas Pantulu considers that the proviso nullifies the benefit of he main provision and will be harmful to the movement.

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Bihar and Orissa Co-operative Societies Act and sub-section (6) of section 38-A of the Mysore Co-operative Societies Act.

Removal of one or more members of the committee not desirable.

404. Under section 43 of the Co-operative Societies Act only the entire committee of a society can be superseded. It may sometimes happen that one or two members of the committee of a society may be the " evil genius " of the society. We have been asked to consider whether in such cases it is not preferable to remove the offending members instead of suspending the entire body. In support the rule framed under the Bombay Co-operative Societies Act providing for the removal of any of the members and for the appointment of one or more members in the place of the member or members so removed has been cited. We have given the matter our consideration and are of the opinion that both in the interests of the Registrar and of societies, such a power is undesirable. It will cause friction and irritation between the department and non-official co-operators and tend to embitter their relations; it may give room for the play of political or party influences; and it may more likely than not aggravate the differences among members of the committee and make the smooth working of the society more difficult.

E. Liquidation.

Liquidated societies—A bird's-eye view.

405. We have stated in paragraph 58 of our report that owing to the policy of consolidation and rectification of societies pursued by the department in recent years, a number of bad societies was liquidated. While the number of societies under liquidation at the end of the year 1929–30 was 612, their number on 30th June 1939 was 1,392. The assets pending realization in all the societies under liquidation on 30th June 1939 amounted to Rs. 73·08 lakhs, while the liabilities to be discharged amounted to Rs. 57·33 lakhs. Of the 1,392 societies, 148 have been under liquidation for over three years, 101 for over four years and 634 for over five years. The liquidation proceedings of some societies thus continue to drag on, in spite of the several measures devised for accelerating the process of winding up their affairs.

Reasons for delay in winding up.

These delays in the process of winding up constitute a most serious feature of liquidation proceedings and in the opinion of some have assumed the proportions of a scandal. They are attributed to several factors. First, liquidation is resorted to only when members become defaulters, loans are frozen, the financial condition of societies get definitely hopeless or loss is apprehended. The collection of assets after liquidation in such circumstances is slow and difficult. Secondly, it is not found possible to recover the assets in many cases by moral persuasion, coercive action is necessary and even this is found difficult owing to the economic

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depression and the scarcity of bidders to purchase properties brought for sale. Where the liquidators themselves are forced to purchase them the disposal of such properties takes a long time. Thirdly, in some cases, solvent members withdraw from societies or alienate properties in anticipation of liquidation and even prolonged coercive action proves fruitless. Fourthly, some members leave the villages and their whereabouts are not easily traceable, and quick action is therefore, rendered difficult. Fifthly, financing banks have shown a general reluctance to write off irrecoverable or bad debts or losses even after all possible steps have been taken, and enter into fruitless correspondence with liquidators to pursue the barren path of further coercive action. Sixthly, the staff of liquidation inspectors, who are assigned generally 25 societies each, is not quite adequate to cope with the work, particularly if societies are scattered over a large area. Finally, in the absence of power under the Act enabling the liquidators to decide whether a person is or is not a member, liquidators are dragged to courts; prolonged litigation in such cases delays the process of winding up.

Measures taken for accelerating winding up.

We have gone into this question and have noted the steps taken by the Registrar from time to time to hasten the procedure. Recently, he has instructed the liquidators to extend all possible concessions to defaulters in liquidated societies in order to induce voluntary payments by them consistently with their obligations to the creditors and in deserving cases, suggested the adjustment of share capital towards their dues, waiver of accrued interest, and the scaling down of their debts or contributions to the level of their repaying power in consultation with central banks. He has also asked the liquidators to hasten the disposal of properties in their possession by restoring them to their original owners or to their next-of-kin, if they agree to pay the value or something near about it within a period of six months or one year, and in cases where there are no outside debts to be paid, by restoring the lands to their original owners even at less than the market value. We are in agreement with the steps taken and hope that the liquidators will enforce them.

Appointment of non-official liquidators.

406. We, however, feel that more drastic measures should be devised towards the same end. We consider that, until such time as the Government is in a position to strengthen the staff of liquidation inspectors to an adequate extent, the Registrar may explore the possibilities of utilizing the services of suitable non-official gentlemen, wherever possible, for attending to liquidation proceedings and that they may be paid on a commission basis. We are aware of the difficulties in the way of appointing persons other than departmental men as liquidators. For one thing, the fees realized towards liquidation costs will not be adequate to

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cover the payment of commission or remuneration to non-official liquidators and difficulties in controlling and supervising their work will present themselves. For another, a large proportion of the work in liquidated societies is coercive action by way of execution proceedings, for which the non-official liquidators may not prove an effective agency; particularly in places where factions and parties prevail, their work is likely to be subjected to serious criticism. Nevertheless, we suggest that the experiment may be tried in societies which are situated in urban centres or in a convenient group.

Appointment of secretaries of central banks as liquidators.

407. We further suggest that as soon as a society which is indebted to a financing bank is ordered to be liquidated, the Secretary of the central bank concerned, unless the Registrar otherwise directs, should be made its liquidator. It should, however, be open to the Registrar to vary the order, whenever necessary.

Prevention of alienation of properties by members of societies ordered to be liquidated.

408. In order to prevent alienations of properties by members, we recommend that no member of a society ordered to be liquidated should be free to alienate his property to the prejudice of the claim of the society during the pendency of the appeal to the Government and within 15 days thereafter. (The word ' claim ' should include claims arising out of any subsequent contribution orders that may be passed.)

Application for immediate attachment of properties of members by the liquidator.

409. We suggest further that before the end of the above period and after the Government confirm the order of liquidation, the liquidator should decide which of the properties of members of societies should be attached and should immediately apply to the Deputy Registrar for such attachment. The properties so attached should be the security for, and be charged with, the payment of the amounts due to the society as well as the amounts that may be due under the orders of contribution that may be passed under the provisions of the Act.

Formulation of steps for early recovery of assets.

410. In order to expedite the recovery of assets in liquidated societies, we consider that within the space of one year, the liquidator should see to the realization of the debts, secured and unsecured, due to the society :—

(i) By persuasive collection.

(ii) By launching execution proceedings.

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(iii) By the liquidator scaling down the dues by compromise with the previous approval of the executive committee of the central bank concerned, every such case being reported to the Deputy Registrar.

We suggest that at the end of the one year, the liquidator should prepare a statement of the financial position and present it to the Deputy Registrar and the executive committee of the central bank concerned and that on the basis of that report, the Deputy Registrar should extend the period by six months for the realization of debts due, if necessary, to enable the liquidator to complete execution proceedings, and within three months thereafter, hold an inquiry, if he deems it necessary, and pass contribution orders according to the exigencies of the situation. The liquidator must immediately execute such contribution orders.

Invalidity of contribution orders and execution proceedings six years after the date of liquidation.

411. We consider that no contribution order or execution proceedings for debts due to a liquidated society should be deemed to be valid six years after the society is finally ordered to be liquidated.

Recovery of contributions for expenditure incurred by central banks.

412. In order to enable the central banks to recoup the expenditure incurred by them on account of their undertaking the work of liquidation in the manner indicated above, we suggest that they should be permitted to recover a sum not exceeding $7\frac{1}{2}$ per cent out of the realization in liquidated societies.

No revision in scale of liquidation fees called for.

413. In accordance with the instructions in force, liquidators may appropriate towards the cost of liquidation, $7\frac{1}{2}$ per cent of the total collection made in liquidated societies (excluding collections made by adjustment of share capital and reserve fund invested in central banks) and utilize the balance towards the payment of liabilities. The amount of appropriation so made is credited to the Government towards the cost of liquidation inspectors employed by them. A small portion of it is, however, utilized for expenditure connected with liquidation work, such as payment for clerical work in absolutely necessary cases, printing of forms, etc. We consider that the present scale of fees for liquidation work is adequate and does not need any revision.

Disposal of lands bought in by liquidators.

414. So far as the disposal of lands in the hands of the liquidators is concerned, we feel that action on the lines of the instructions already issued by the Registrar to liquidators will do, and that arrangements may be made for the sale of lands to the

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original owners or their next-of-kin at the present market values if they agree to pay the sale price within a period of six months and in any case not exceeding one year.

Winding up to precede cancellation of registration.

415. The procedure followed in regard to cancellation of registration of societies under the Madras Co-operative Societies Act is that societies are, in the first instance, dissolved and their affairs are subsequently wound up. Only on appeal within a period of two months from the date of the order of cancellation can the Government if they choose, set aside the order of liquidation and restore the society to the active list. If, in the course of winding up, it is found that the society can be made to stand on its own legs and allowed to work again, there is no way of doing it under the Act. This lacuna should be filled in. It is necessary to provide for an intermediate stage so that though a society is first ordered to be wound up, the Registrar may cancel the order of winding up if he thinks the society should continue to exist or order the registration to be cancelled. There is an additional advantage in this procedure because the society continues as a corporate body during the process of winding up and enjoys all the privileges such as exemption from stamp duty, arbitration, etc. We suggest, therefore that following the practice in some of the other British Indian Provinces, the Madras Co-operative Societies Act be suitably amended to provide for the winding up of the affairs of a society before its registration is cancelled.

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CHAPTER XVII.—GOVERNMENT AND NON-OFFICIAL STAFF.

A. Government Staff.

416. In the previous chapter we have recommended the separation of audit from administration and the creation of an audit branch of the department. In the chapter on land mortgage banks, we have suggested the abolition of the posts of Deputy Registrars in charge of these banks and the transfer of their duties to the regular district or circle Deputy Registrars, by relieving them substantially of their present work and also by increasing the number of district Deputy Registrars, wherever circumstances demand it. These will entail alterations in the departmental structure as it now exists. We now proceed to consider other matters relating to departmental organization.

Arrangement of work of Junior Inspectors.

417. The Junior Inspectors of Co-operative Societies constitute, as it were, the base of the structure of the departmental executive staff. They have been entrusted with the duties of audit, administration, liquidation, etc., and in popular parlance, they are distinguished from one another by the functions they discharge —audit inspectors, administrative inspectors, liquidation inspectors, etc. We have been asked to examine the question whether there is need for a redistribution of departmental junior inspectors on a territorial basis in preference to the functional basis. The merit claimed for the distribution of inspectors on a territorial basis is that it will be simple in that one inspector will attend to all duties instead of, as at present, several inspectors doing them, that it will be easier for the villager to deal with a single officer of the same department than with a number of them and that it will be conducive to economy of time and energy on the part of inspectors. The other point of view is that the present system has been evolved over a series of years and has been the result of increasing volume and complexity of work done or undertaken by the department from time to time audit, administration, liquidation, execution, supervision of scheduled classes societies, etc. This increasing variety of departmental work called for some degree of specialization and division of functions to secure efficiency and despatch. This arrangement admits further of proper selection of inspectors for particular jobs according to their varying physical and mental capacity. Each kind of job requires certain special qualities and ability on the part of inspectors.

Territorial redistribution of inspectors considered.

418. We are informed that, at the instance of the Government, the Registrar has been trying, as an experimental measure, the

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scheme of distribution of Inspectors on a territorial basis for all items of work (except the supervision of loan and sale societies) in select centres, in two districts, namely, Madura and East Godavari. First, from his reply to the question, we find that the Registrar anticipates extra cost if the scheme is given effect to fully all over the Province. Secondly, as this arrangement is still in an experimental stage, no definite conclusions as to its utility or the desirability of its widespread adoption can yet be arrived at. Thirdly, we have already suggested the separation of the audit staff from the administrative branch of the department. The audit staff constitutes the bulk of departmental junior inspectors and, if, according to our proposals, it be separated, there will hardly be a case for territorial re-arrangement of junior inspectors. We are not disposed to support the proposal.

Need for converting Assistant Registrars' charges into Deputy Registrars' charges.

419. At present all the revenue districts except West Godavari, Nellore, Kurnool and Bellary are in charge of Deputy Registrars. The four districts referred to are in charge of Assistant Registrars. The Ramnad district is included in the jurisdiction of the Deputy Registrar, Madura. The Nilgiris district being small is included in the jurisdiction of the Deputy Registrar, Coimbatore. The question has been raised as to whether there is need to convert the four Assistant Registrars' charges into Deputy Registrars' charges. First, we do not see why any distinction should have been made between one revenue district and another; the need for development of co-operative activities is of equal importance in all districts. Secondly, we are informed that an Assistant Registrar cannot exercise all the powers and duties of Deputy Registrar; he has to look to the Deputy Registrar for help, guidance and statutory exercise of powers in certain matters. Thirdly, it is impossible for a Deputy Registrar to give equal attention to two districts; he has to attend to the work in the district of which he is in immediate charge and in addition has to move about in the jurisdiction of the Assistant Registrar study conditions and devise measures. This results in a dispersion of effort and energy. Fourthly, we gather that non-credit work has not made much headway in these districts owing particularly to the fact that they have not had Deputy Registrars on the spot, who can examine the possibilities of such development. There is no doubt that a good deal of personal touch with villagers and consultation with co-operators is necessary before any new schemes can be successfully undertaken or worked. Fifthly, the passing of the Agriculturists Relief Act and the consequent demand for fresh societies for supply of credit has thrown additional work on the officers. Sixthly, our recommendations for reorganizing societies and accelerating the development of the movement both intensively and extensively will require greater attention and time on the part of the Deputy Registrars. We

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have it on the authority of one of the former Registrars (Mr. T. Austin) that it is inevitable that the progress and expansion of the movement must suffer in varying degrees in districts in charge of Assistant Registrars. The weight of evidence of the Registrar and others we have received is in favour of converting these districts into Deputy Registrar's charges. In consideration of all aspects of the question, we recommend that they should be turned into Deputy Registrars' charges.

Joint Registrar and Registrar—Duties.

420. The post of Joint Registrar of Co-operative Societies was created for a short period in 1920–21 but was soon abolished. It was revived again in April 1926 to provide relief for the Registrar, who was overburdened with work, much of it routine. Though it was intended that the Joint Registrar should deal with non-credit work, in actual practice, however, it is seen that since the post was created, control and development of non-credit work have never been his whole-time job, and the services of the Joint Registrar have been utilized in assisting the Registrar in the general administration.

Increase in volume and complexity of departmental work and responsibilities.

Since 1926, we notice that the movement has developed in several directions, both on the credit and non-credit sides. The following statement gives a comparative statistical account of the number of societies, total membership and their total working capital as on 30th June 1926 and 30th June 1939 :—

	30th June 1926.	30th June 1939.
Total living societies	11,973	13,558
Liquidated societies	215	1,392
Grand total ..	12,188	14,950
Membership of all classes of societies	748,783	1,041 385
	RS. LAKHS.	RS. LAKHS.
Total working capital	1,132·80	2,270·90

During this period the number of societies increased by about 2,800, the number of members by about 3 lakhs and the total working capital by over Rs. 1,138·10 lakhs.

Secondly, we note that there has been a marked increase in the volume of departmental work. As against six primary land mortgage banks on 30th June 1926, there were 112 primary banks on 30th June 1939, with a total working capital of Rs. 207·49 lakhs, headed by the Madras Central Land Mortgage Bank.

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(Since then eight more banks have been registered up to date; one of the old banks was liquidated.) The responsibility of the Government, in view of their guarantee of the principal and interest on the debentures floated by the Central Land Mortgage Bank, and of the Registrar as the trustee is evident. Loan and sale and marketing societies have been making rapid progress. While there were 23 such societies on 30th June 1926, their number on 30th June 1939 was 138, their loan business against produce in 1938–39 being Rs. 96 lakhs and sale business being Rs. 46 lakhs. Further a number of production societies and societies for the organization of subsidiary occupations and cottage industries on co-operative lines have been started. We find that on 30th June 1939 there were six milk supply unions and 51 milk supply societies, in addition to a number of other societies such as sugarcane growers' societies and unions, fruit-growers' societies, consolidation of holdings societies, egg-production and poultry-farming societies, agricultural demonstration societies, cattle-breeding and cottage industries societies, etc. There has been a great activity on the part of co-operative house-building societies during the last decade. As against 94 house-building societies on 30th June 1926 with an amount of Rs. 10·42 lakhs outstanding against Government, there were on 30th June 1939, 126 societies of this type and the loans due to Government on that date amounted to Rs. 20·36 lakhs.

Thirdly, the department has, on account of the passing of the Madras Co-operative Societies Act VI of 1932, undertaken new responsibilities by way of execution of decrees and awards obtained by societies against their defaulters, and supersession of committees of mismanaged bad societies. The Act has provided for appeals to the Registrar against orders of the subordinate officer in respect of arbitration, execution, liquidation, etc., and this has resulted in an increase of work.

Fourthly, liquidation work has increased during this period. As against 215 societies in liquidation on 30th June 1926, there were 1,376 societies on 30th June 1939 with assets amounting to Rs. 69 lakhs pending realization and liabilities of Rs. 48·35 lakhs pending payment to creditors.

Fifthly, in the wake of economic depression and the slump in prices, the official agency, alongside of non-official co-operators, has been giving its attention to consolidation and rectification of societies and recovery of arrears. During the last three years, the department has undertaken ameliorative work on co-operative lines in districts where prohibition has been introduced, and with the gradual introduction of prohibition in other districts, the work of the department is bound to increase. Thrift societies are being organized in the prohibition districts and a vigorous thrift campaign has been started and pursued. Societies for toddy-tappers are being formed to enable them to convert sweet toddy

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into jaggery. The department is being called upon to take a larger share in all schemes of rural uplift and reconstruction in collaboration with other nation-building departments.

Sixthly, under our proposals of rehabilitation and reconstruction of the movement, new forms of co-operative activity will have to be undertaken and there is no doubt that they will throw additional work and responsibility on the department.

Finally, we may also state that during this period there has been a considerable increase in the subordinate staff of the department and that this has brought in its wake problems of control of the staff. There is a large number of district offices to be controlled and inspected by the Registrar.

In passing we may also state that both the MacLagan Committee and the Royal Commission on Agriculture observed in emphatic terms that the Registrar should be the foundation of the movement and that he should study the experience of other countries and bring his knowledge to the examination of the economic problems of the agriculturists, artisans and persons of limited means. The MacLagan Committee stated :

> " He (the Registrar) must be continually studying co-operative literature, which is now most extensive; he must make himself acquainted with economic conditions and practices both throughout India and in his own province; he must know the principles and methods of joint stock banking; and must examine the systems of developing thrift and inculcating co-operation which have been tried in other countries. He is also head of a teaching establishment and must devise effective means for impressing a real knowledge of co-operation on the bulk of the population. He has further to control a large staff, to draft model by-laws and rules, to collect statistics and write reports, to advise Government on various subjects and to keep in close touch with the higher finance of the movement as managed by Provincial Banks and Central Banks."

The Royal Commission on Agriculture in India added :

> " To the list of qualifications laid down by the Committee we now add others. The modern Registrar should be fully apprised of the activities of all departments working for the improvement of rural conditions; he must see that there is a sound foundation of better business to support the superstructure of better farming and better living; the more efficient the movement is, the more will the other departments make use of it to promote their own special activities."

Need for relief and decentralization.

We think we have said enough to prove that the work and responsibilities of the Co-operative department and of the Registrar

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have greatly increased in recent years, and will continue to increase in the immediate future. We fear that this continual extension of the sphere of statutory and administrative functions of the department has slowly resulted in an undue degree of centralization, that the Registrar and the Joint Registrar have to attend far too much to routine and that it is impossible for the Registrar, under the present conditions, to study and equip himself in the manner suggested in addition to attending to the numerous calls made on him to attend meetings or settle disputes. He will have to be relieved of much of the routine work. There should be a decentralization of administration.

It is undesirable in a growing movement like the co-operative movement to work by rule of thumb or to adhere to dead uniformity, because of the widely varying geographical, agricultural and economic conditions of the Province; we think there is a fertile field for research and experimentation both on the credit and non-credit sides on a regional basis. And for this, it is necessary to provide for an officer who can formulate measures for regional co-operative development and co-ordinate the work of the officers in charge of the group of districts concerned.

Appointment of Divisional Registrars.

421. On a full examination of the question, therefore, we are of the opinion that there is a need for the creation of intermediary posts. It is needless to point out that in the Income-tax, Excise, Salt, Agricultural and Education departments, there are appellate and controlling authorities between the primary executive officer of the district and the head of the department. We agree then with the view expressed before us that the Province should be split up into 4 or 5 divisions and that each division should be in charge of a divisional co-operative officer styled Divisional Registrar, of the rank and status of the Joint Registrar. In view, however, of the financial implications of the proposal, we recommend for the present the appointment of two Divisional Registrars and as finances permit, the number may be raised to meet the full departmental requirements on a regional basis.

B. Non-official Co-operative Employees.

Existing conditions of service of non-official employees.

422. We have been asked to offer our suggestions on the conditions of service of non-official employees in Co-operative Institutions. Before doing so, we would like to give an account of the existing state of affairs. An examination of the position made by the Registrar recently has disclosed that only central banks and some of the big limited liability societies maintain full-time paid staff, that the remaining societies, including village societies, have no regular establishment and that their administration is carried on generally by honorary workers and part-time

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paid men. The scales of pay of the different grades of employees vary from one co-operative bank or society to another according to their resources and local conditions. Many of the employees, both of central banks and other societies, are S.S.L.C. holders and possess a certificate of training from co-operative training institutes; a few of them are also graduates. Some of them possess none of these qualifications but we learn that this deficiency is made up by their long service and experience.

The enquiries made have also shown that all but seven central banks have framed definite rules as regards the scales of pay, leave and other conditions of service of their employees. Only a few of the other societies have any such definite rules. We gather that all central banks and 59 urban banks and societies have instituted a system of contributory provident fund for their staff. The by-laws or subsidiary rules framed by the banks or societies generally empower the President to appoint, fine, suspend or dismiss the members of the paid establishment, subject, in the case of dismissal, to the approval of the executive committee or the Board of Management, as the case may be. In a few societies, an appeal is provided to the general body against the orders of punishment passed by the boards of management. No rules however have been framed by central banks or societies prescribing the procedure to be followed before punishments are meted out to their employees.

Recently, in view of the representations made to the Government, a rule has been made under the Co-operative Societies Act to the effect that the by-laws of societies should provide for the method of recruitment, conditions of service, pay and allowances paid to officers and servants and the procedure to be followed in the disposal of disciplinary cases against them.

Representation of the non-official employees.

We have heard the representatives of the Provincial Non-Official Co-operative Employees' Associations. Their complaint is that the employees do not have security of tenure, that retrenchments are effected and salaries reduced arbitrarily, that no definite rules have been laid down prescribing the procedure for disciplinary control and punishments, that they are compelled to work on behalf of their employers in local elections, and that disciplinary powers are freely abused. The representatives of the Association urged before us, (1) that definite rules should be framed governing the conditions of service of paid employees in all co-operative institutions and incorporated in the Act itself and should not be left to be decided by societies themselves; (2) that the number of employees required for each type of co-operative institution, minimum salary, hours of work, etc., should be determined by joint boards of employers and employees in each district; (3) that there should be provincialization of service, at

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any rate so far as the employees of urban and central banks are concerned; (4) that a definite procedure should be laid down for awarding punishments, appeal, constitution of appellate authority, etc.; and (5) that the employees who are already in service should be exempted from qualifications regarding training, etc.

Incorporation of rules regarding service conditions in by-laws of societies.

423. We understand that the Registrar has been asked to frame a set of model by-laws governing service conditions of non-official paid employees for adoption by societies with such modifications as may be found necessary in individual cases and that the matter has been engaging his attention. We do not think that we can traverse the ground here. We will at this stage content ourselves with a discussion of the general position and an indication of the outlines on which the rules may be based.

We have considered the suggestions for the incorporation of service rules in the Co-operative Societies Act and are not convinced of the need for it. The Act is intended to govern and regulate the working of co-operative institutions registered under it and is not the proper place for these rules. We think, however, that they may be embodied in the rules framed under the Act. Rules have statutory force and can be enforced.

Adoption of by-laws in particular types of bakns and societies suggested.

We suggest that these rules should, in the first instance, be enforced in all central banks and limited liability societies (including urban banks and land mortgage banks) whose loan transactions amount to Rs. 25,000 and above. We should hesitate to suggest the enforcement of the rule in the village societies or smaller urban institutions just at present. This, we think, may be done when effect is given to our recommendation in favour of the consolidation of existing village societies into bigger ones with wider jurisdiction, activities and membership

General features of service conditions indicated.

424. We suggest that in the rules to be framed, provision should be made for the following among other things :—

(*a*) Minimum educational and technical qualifications required for employees of different classes of societies and of grades of employees should be prescribed.

NOTE.—(1) Employees who are already in service for a sufficiently long time and have shown proof of their ability to hold the posts may, wherever necessary, be exempted from the qualifications prescribed by the by-laws.

(2) Persons dismissed from service of Government, local bodies or private institutions should be disqualified for employment.

(3) The relatives of directors should be disqualified for employment in societies of which they are the directors.

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(*b*) An age-limit for entrance into service and for retirement should be fixed. We think that an entrant should not normally be above 30 years and that the age of retirement might be fixed at 55.

(*c*) The rule should fix the scales of pay of different grades of employees and lay down the procedure for the promotion from one grade to another.

We understand that there is no method followed in the fixation of initial pay or grant of increments or promotion of employees from one post to another. We think that the present unsatisfactory state of affairs should be remedied by suitable provision being made in this behalf.

It was urged before us that a tribunal should be constituted consisting of representatives of employees and employers and that it should be empowered to fix the scales of pay of the members of the establishment of each type of co-operative institution. We do not think this is either possible or desirable. Co-operative institutions are autonomous bodies, and they cannot surrender their power of appointment and control of their paid staff by entrusting them to an outside body. Each institution is responsible for its administration and should decide the scales of pay and other matters with reference to the conditions of its working and financial resources. While we concede that the conditions of service should be definite and give reasonable protection to employees we cannot see our way to recommend a complete surrender of the powers of the executive management of co-operative institutions to an outside authority, whatever may be its composition.

(*d*) Provision should be made for the mode of discharge and re-employment of employees in case of retrenchment.

(*e*) Provision should be made for the grant of casual, privilege or medical leave more or less on the lines applicable to local board employees.

(*f*) We understand that at present there is no definite procedure prescribed before disciplinary action is taken. We recommend that the procedure should be laid down and that it should include framing of charges, an enquiry being held in the presence of the accused, who should have an opportunity of cross-examining the witnesses against him and of producing evidence in his defence.

Here again, a suggestion has been made for the constitution of a tribunal to discharge the functions of an appellate body in respect of appeals preferred by employees against punishments awarded by the competent authorities of the institutions concerned. The interference of an outside body in disciplinary matters is not conducive to the proper

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administration of co-operative institutions and is opposed to their democratic constitution. We cannot support the suggestion.

(*g*) We consider that an up to date record of services and conduct sheets of every employee should be maintained as in the case of Government servants and employees of local bodies, and the head of the institution concerned should be made responsible for their correct maintenance.

(*h*) We suggest that central banks and big urban banks should, in so far as their financial resources permit, institute schemes of contributory provident fund in the interests of their employees.

It appears to us necessary that rules should be framed to regulate the personal conduct of employees of co-operative institutions. They should be forbidden from taking part in or subscribing to any electioneering party organization either by canvassing or by influencing in any way elections to co-operative institutions, local boards or legislative bodies. They should not engage in the promotion, registration or management of any bank, company or trade or undertake employment other than their duties. The rules should also prohibit them from having any pecuniary transactions with individuals or institutions coming in contact with them in the course of their duties, and from accepting directly or indirectly any gift, gratuity or reward from any person with whom they are concerned in the performance of their work. They should submit to the head of the institution in which they are employed an annual statement of immovable property owned or acquired by them or on their behalf or on behalf of their near relatives in a prescribed form.

Impracticability of provincialization of services.

425. The representatives of the Provincial Non-official Employees' Association urged before us that at least the staff of central and urban banks should be placed on a provincial cadre and should be liable to be transferred from one district to another. Central and urban banks are independent financial institutions: they are not branches of a provincial organization. Provincialization presupposes a common central organization with adequate financial resources and powers of control of the staff. We do not think the constitution of such a provincial organization is, under present conditions, practical politics, however laudable such an ideal may be. There are, in our opinion, many administrative and financial difficulties involved in the proposal, and we cannot see our way to support it.

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CHAPTER XVIII.—LEGISLATION.

426. One of the terms of reference to the Committee is to examine the amendments to the Madras Co-operative Societies Act, 1932, which have been found necessary as a result of experience gained in the working of the Act during the last few years and to offer our views thereon. We examined the draft amendments in the light of the decisions arrived at by us, and append to the report the amendments as finally modified by us alongside of the Act as it now stands. In the appendix a small explanatory note is given at the end of each of the amendments. It is not therefore necessary for us to cover the ground here in any detail. We will content ourselves with drawing attention to a few of the important amendments :—

Section 4.—In view of the decision of the majority of the members of the Committee that limited liability should, as a rule, be the basis of credit in rural credit societies, we have suggested an amendment to this section providing for the registration of such societies with limited liability, and reserving, however, discretion to the Registrar to register them with unlimited liability if he so directs with reference to local opinion and other circumstances. We have not felt it necessary that specific provision should be made for societies being registered with liability limited by guarantee, as limited liability would include also liability limited by guarantee. A specific provision may be made for it in the by-laws of any society which chooses such a form of liability.

Section 13.—We have considered it necessary to provide for a division of a society including a central bank on account of transference of its area of operations from one district to another or from one Province to another and also for the division of assets in the case of transfer of any portion of the area of operations of a financing bank to that of any other financing bank. In the past, owing to the absence of this provision, difficulties were felt in disposing of matters arising out of the circumstances referred to. We have been told, for instance, that the question of the transfer of the Bhimavaram taluk of the West Godavari district from the jurisdiction of the Kistna Central Bank to that of the West Godavari Central Bank has long been engaging the attention of the Registrar and that in the absence of statutory provision it has been found difficult to effect a satisfactory division of assets such as the reserve fund and bad debt reserve, to a share of which the West Godavari Central Bank thinks it is entitled if the societies in the Bhimavaram taluk are transferred to its jurisdiction.

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Section 15.—We have given power to the Registrar to call for general and committee meetings if the officers responsible under the by-laws of societies fail, for personal or other reasons, to comply with the request of members, supervising union, financing bank or of the Registrar to convene such meetings. In some of the societies the panchayats (or committees of management) are defunct on account of the continued default of panchayatdars (or directors) and in such cases, we consider that power should be vested in the Registrar and the Central bank to call for general meetings for reconstitution of the committees.

Section 21.—In view of the recommendation of the various committees and of the conference of the Registrars of co-operative societies, we have recommended the conversion of "prior claim" into a "first charge."

Section 39.—We have provided that, if, as a result of inspection of a society made by the Registrar on the application of a creditor, it is found that a debt is due by the society to the creditor and that the society is not in a position to satisfy the creditor within a month, the Registrar may pass an award for the amount due in favour of the creditor and the creditor can recover the amount by instituting proceedings under the provisions of the Act. We think this will prevent depositors from rushing to civil courts on account of the failure on the part of a society to pay on the due date and from creating serious financial embarrassment to it by undue publicity, however sound its general position may otherwise be.

Section 43.—In view of certain apprehensions felt as regards the enforcement of this section, we have put in certain safeguards to which we have already referred while dealing with the question of supersession. In the amendments suggested by us, the Registrar is obliged to give an opportunity to the general body of a society to reform its management, and to obtain the previous concurrence of the financing bank before its committee is dissolved. To meet emergencies, we have also given power to the Registrar to waive the observance of the procedure laid down.

Section 44.—We are agreed that winding up should precede liquidation of a society as in Bombay and Burma, so that if, in the course of winding up, it is found that the society can be revived, the winding up order may be cancelled and the society allowed to work. When an order for winding up is passed, the society continues to be a corporate body and enjoys all its usual privileges and can be

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restored to the active list if there be a prospect of its working normally. This is not possible when the registration of the society is cancelled (except in the period of appeal of two months provided for).

Section 47.—We have radically recast the section. In particular, the amendments suggested provide for—

(*a*) Consulting the wishes of the members of a society in the matter of the appointment of the liquidator;

(*b*) empowering the liquidator to agree to a compromise or refer any matter to arbitration and to determine whether any person is a member, past member, etc., of a society;

(*c*) prescribing a limitation for the execution of contribution orders; and

(*d*) the representation of parties by legal practitioners in appeals against contribution orders in certain cases.

Section 49.—We have added a new sub-section empowering the Registrar to require an auditor to make good the loss or damage caused to a society through his gross negligence, wilful default or breach of trust. We feel such a provision is necessary to make auditors realize the responsibilities imposed on them by the Act. At the same time, we suggest that greater facilities be given to the inspectors to enable them to get through their work satisfactorily.

Section 51.—We have enlarged the scope of the section so as to include the decision of disputes relating to the constitution and management of a society, in view of certain doubts expressed in the matter by civil courts and to permit a claim being preferred by a surety for a debt recovered from him owing to the default of the principal borrower and by a society for any loss caused to it by any member, past member, etc. We have also provided that the question whether a person is or was a member of a society should be considered a dispute within the meaning of the section. In view of certain legal difficulties experienced in the execution of awards or decrees, puisne mortgagees or encumbrancers and subsequent alienees of the property involved in a dispute are permitted to be made parties to the dispute.

Section 51-*A*.—We have provided for reference of disputes between a society and its creditor who is not a member either by the creditor or the society if the creditor consents to it.

Section 51-*C*.—We have recommended elsewhere that financing banks should be given powers to recover loans overdue from indebted societies and in pursuance of this, we have put in a new section, empowering central banks to proceed against members of societies and to recover loans due

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from them, if the panchayats fail to take action against them. If the power is judiciously exercised, there will be an improvement in the working of societies and arrears may not be allowed to accumulate.

Section 57-A.—At present persons who purchase properties in auction in the course of execution of decrees and awards have to resort to civil courts to take possession of such properties. We have recommended that the Co-operative Department should have, in such cases, the power to put the purchaser in possession of properties.

Section 63-A.—A new section has been included requiring a notice in writing to the Registrar or to the society before any suit is instituted against a society or any of its officers in matters concerning the conduct of the business of the society in order to enable the Registrar to intervene to use his good offices to settle matters amicably.

In general terms we may state that in all important matters we have specifically provided for an appeal to Government against the orders of the Registrar in exercise of his powers under the Act.

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CHAPTER XIX.—CONCLUSION.

427. The Committee was appointed at a time when the economic depression which overtook the world had not yet withdrawn its shadow. Co-operative organizations, in common with other organizations appertaining to economic and agricultural life, have had to pass through hard times, and it is during times of adversity that the points of strength as well as weakness of any big movement are more clearly perceptible than at other times. This is also seen from the wide range of opinions received from witnesses in reply to the questionnaire.

Estimate of the effects of the Co-operative movement.

428. One section of witnesses point out that the development of the movement has neither been sound nor efficient, that it has been no more than a money-lending concern, that its origin and growth have not been spontaneous but are due to external official stimuli, that, as it has not sprung out of the felt needs and a realization of its utility by the people, it has not acquired the strength and vigour natural to a popular movement. They further state that the movement has during the past few years shown signs of deterioration as evidenced by the steady accumulation of overdues and bad and doubtful debts and an increasing number of liquidated societies, that the movement has not yet touched a large section of the rural or urban classes that it has not reduced the indebtedness of the ryots, that it has not propagated the principles of thrift and self-help, that quantity rather than quality has been aimed at, and that the growth has been lop-sided in so far as the aspect of credit has received an unduly large share of the attention of co-operators. It is instructive to note in passing the reasons which these co-operators assign for the rather gloomy picture of the movement they have drawn. Lack of suitable persons to run co-operative institutions, general illiteracy among the mass of rural population, absence of an efficient machinery to propagate the principles and practice of co-operation, to assess the credit-worthiness and repaying capacity of agriculturists, to arrange for the prompt supply of credit to the people and to make timely recoveries, the backward and economic condition of the rural classes, absence of select membership in societies, lack of proper leadership in villages and of a spirit of disinterested and selfless service among the panchayatdars, introduction of politics and factions into the management of co-operative institutions, want of business talent and methods among office-bearers, inadequacy of provision for advice, guidance and effective supervision, failure to cater to all the economic needs of members and premature de-officialization of the movement—these are the principal reasons which they have given for what they consider to be the unsatisfactory position of the movement.

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Another section of witnesses is not so vehement in its criticism of the movement and its weaknesses. It points out that the movement has developed more or less on satisfactory lines wherever suitable men are available and has improved the economic and moral condition of the people who have come under its influence. It refers to several of its achievements—reduction in the rates of interest throughout the Province, the breaking down of the monopoly of the money-lending classes in the countryside, attraction of a good deal of money into the movement and making it available to agriculturists and others who are in need of cheap and reasonable credit, gradual redemption of ryots from prior indebtedness with the advent of land mortgage banks, promotion of agricultural industry through the supply of capital at cheap rates of interest, provision of facilities for the marketing of produce, opportunities for public service for a number of social workers, creation of the co-operative spirit, inculcation of the value of combined effort, promotion of thrift and development of banking and business habits, spread of the sense of democratic management of institutions and a general educative influence the movement exercises over the community.

We do not propose to pronounce judgment on the view points of either of these schools of witnesses. Readers of the previous chapters of this Report will doubtless form their own judgments. Our purpose is rather to point to the trends of thought so that a note may be taken of them by all who are charged with the administration of the movement. We seem to detect in all the criticism that has been levelled against the movement, an undercurrent of hope and optimism and that even its severer critics are conscious of its potentialities for good. There is evidence, too, of an appreciation by most of the witnesses of the fact that co-operation is not a panacea for all economic ills. But there is an equal recognition of the fact that the movement is sound at the core and that the defects, if any, arise not out of its structural weaknesses but from a lack of co-operators imbued with a spirit of devotion and missionary zeal to run co-operative institutions. Many witnesses have laid stress upon the need for suitable men for the management of the co-operative institutions, men who will subordinate their personal ambitions and party and political considerations to the common good of the people and who will exploit the societies not for their own good but for the maximum good of the people. It is a common place that the movement requires an army of selfless men who can give of their best to it. But common places have their use for all of us. We agree with Sir Frederick Nicholson when he says : " Find Raiffeisen. What is really wanted is the advent of men of zeal, enthusiasm, devotion and perseverance, labour to solve the difficulties of the problem not on paper but in actual practice. The philanthrophic reformers of the East must sit down in the villages as did their

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prototypes of the West and must there establish the petty societies which, as in Europe, shall contain the germ and promise of infinite potentialities. There can be no higher honour for any man than to achieve the role of Schulze-Delitzch or Raiffeisen of India and the possibility of filling that role is within the power of hundreds of men in the Presidency."

A bird's-eye view of recommendations of the Committee.

429. It is in the hope that even the severer critics entertain and express, viz., that the movement is sound at the core and is capable of doing immense good to the people, that we have approached our task. Our examination of the condition of the movement and of the problems facing it have convinced us that it is sound, that it has weathered one of the severest depressions in living memory. True, it has shown signs of deterioration and stagnation, but we are glad to record that both the official and non-official wings of the movement are aware of it and have already taken steps to arrest it. We do not suggest that our recommendations are all comprehensive and will provide a remedy for every known or conceivable ill in the movement; but we hope that action on the lines contemplated in our recommendations may prove helpful in strengthening co-operative organizations and setting them on a career of vigour, health and increased usefulness.

The depression has forcibly brought into relief the handicaps to which agriculture is subject and the deficit nature of agricultural economy. It is only natural, therefore, that we should have referred to certain aspects of the problem of agricultural indebtedness and some principal remedies. We are aware that the Government have already taken legislative and executive action to relieve agricultural indebtedness. The measures taken have, however, been empirical and we feel that the Government should proceed from the empirical to the systematic stage of relief of rural indebtedness.

No organization is so well suited for the provision of financial assistance for the redemption of prior indebtedness or for land improvements as land mortgage banks. Land mortgage banking in this Province has become an integral part of agricultural credit. It is sound but lacks speed. If our recommendations are implemented, we are hopeful that this reproach on the land mortgage banking movement will be removed. With the support which the Government have given and will, we hope, continue to give, the movement is likely to play an increasingly useful role not only in debt redemption but also in the promotion of agricultural industry in the Province.

Long-term capital for debt redemption or for capital investment in agriculture is only one aspect of the problem. The agricultural classes need current capital to carry on their agricultural operations. The vast number of village credit societies scattered all over the

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Province have placed cheap capital at their disposal and have rendered inestimable economic service to the ryots in the past. They constitute the foundation of the movement and the soundness of the financial structure cannot be ensured unless the basic units are healthy and vigorous. For reasons to which we have already alluded, many of them find themselves in a stage of stagnation and have ceased to be effective suppliers of current capital to the agriculturists. In the past few years due attention has been given to the reform and reconstruction of these societies, but much yet remains to be done. Our recommendations under this head fall under two broad divisions. The first set of recommendations relates to remedial action to resuscitate such of them as still show some hope of revival with the necessary treatment and nursing. The second set deals with the future line of organization and development of co-operative credit institutions. We envisage both an intensive and extensive development of these societies so that all the suitable villages in the Province may have the benefit of institutional credit within as short a time as possible. Our suggestions for speeding up the sanction and disbursement of short term capital when implemented, will make these societies more effective and more prompt suppliers of rural credit. We may, however, make it clear that some of our recommendations, for instance, the replacement of unlimited liability by limited liability and the extension of the area of operations of societies, are opposed to orthodox co-operative principles and practice. But past experience has convinced the majority of us that changing times call for a change in outlook. Co-operation is a live and growing movement and it offers a rich field for adaptation and experimentation. Mere co-operative orthodoxy should not stand in the way of experiments being made and experience gained.

The soundness of the financial structure depends upon the soundness of the basic units. As societies deteriorate, the condition of the financial structure begins to show signs of weakness. On the whole, the co-operative central banks in this Province have done well, though there are a few banks which need attention. We are assured that steps are taken to rectify and strengthen them and provided prompt remedial measures are taken, we expect they will continue their work with the same degree of success as has attended their efforts all these years. We consider that the time has come for the elimination of individuals from the central banks so as to make them pure-type banking unions composed of affiliated societies alone. To enforce their obligations, the central banks should be empowered to step in when panchayats of societies fail to recover loans and to discharge their obligations. Towards this end we have made a recommendation. We have also considered a number of suggestions as regards the constitution and financial arrangements relating to central banks, but we felt reluctant to recommend them. Central banks have been the strong point of the co-operative structure in Madras and we are loath to meddle with them till a clear necessity is demonstrated.

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Co-operation among scheduled classes, artizans and other urban classes, employees and industrial workers needs strengthening and improvement and we have made recommendations towards this end.

There are many leakages in the pocket of the ryot. One such is the disparity between the price he gets for his produce and that which the consumer pays for it. We have made suggestions for the organization and improvement of co-operative marketing so as to ensure a reasonable return for the ryot. But if co-operative marketing is to succeed and maximum efficiency ensured, we are convinced that both marketing organizations and marketing finance should go together and that the Marketing Staff should work under the Registrar. Another form of waste is social extravagance and the failure on the part of the ryot to provide for the rainy day. We have recommended that it should be the primary duty of village societies to check extravagance and promote better living. Our suggestions on thrift and savings, too, keep these objectives in view.

Alongside of the attempts to stop the holes, it is necessary that provision should be made for the spare time employment of agriculturists. The need for home or cottage industries is felt, but a technical investigation is necessary and that has not been possible for us to undertake. We have dealt only with the general position of subsidiary or cottage industries. Of all the cottage industries, weaving presents the most complicated problems of organization, technique, marketing, sale, protection, etc. We are hopeful that our recommendations taken as a whole will go a long way towards the solution of these problems.

The scope of co-operative effort in schemes of rural betterment has, in recent years, received proper emphasis. The opinion has been more or less unanimous that co-operative organizations have not been utilized to the fullest extent by the departments of Government which are charged with rural uplift. We are struck, along with many witnesses, with the water-tight approach of the Government departments towards rural problems. Our recommendations on this subject are calculated to promote co-ordination of effort between all the development departments of Government.

The work of reorganization and expansion of the movement will require the maximum energies of the official and non-official staff employed in it. We have made suggestions for strengthening the official staff and for improving the conditions of service of non-official employees.

We notice that there is a large degree of centralization of functions in the hands of the Registrar. It hardly leaves him time to think and to plan. We have felt that, in the interests of devolution of functions and development of the movement on a regional basis, there is a real need for the appointment of Divisional Registrars.

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We are convinced of the need for the separation of audit from administration, and have therefore recommended the creation of a separate audit branch with a Chief Audit Officer attached to the Registrar.

We have stressed the importance of co-operative education among all ranks of paid and honorary workers in the movement. To ensure efficiency in service, the paid staff in the movement should be adequately trained for their jobs and the members and honorary office-bearers of societies should be taught the theory and practice of co-operation. This should be a normal feature, and not a periodical activity. Our recommendations are intended to ensure this.

Several of our recommendations require legislative action. We have considered a number of amendments forwarded to us by Government for our opinion. Among other things, we have made provision for speeding up the process of liquidation and for the better administration of the provisions relating to supersession of committees of societies.

Publication of the report in the main languages of the Province recommended.

430. We recommend that for the benefit of the general public this report should be translated into the main languages of the Province.

Acknowledgments.

431. In conclusion, we desire to acknowledge the assistance we have received from many quarters. Our thanks are due to the large number of witnesses who have sent their replies to the rather lengthy questionnaire. We cordially acknowledge the assistance we have received from the Heads of the Departments of Co-operation, Agriculture and Industries, from the Provincial Marketing Officer and from the District Co-operative Officers and their staff and the authorities of co-operative central banks and other institutions. The authorities of the Reserve Bank of India, specially Mr. Nanavati, the Deputy Governor, and Mr. Ambegaokar, the Officer in charge of the Agricultural Credit Department, have unreservedly placed at our disposal their expert knowledge of the subjects with which we dealt. Mr. Ambegaokar came all the way to Coimbatore to give valuable evidence before us. The Chairman feels deeply indebted to non-official co-operators in all the districts he visited for the courtesies and assistance they rendered to him in studying difficult questions on the spot. We must not omit to mention the Madras daily newspapers which by their prompt and efficient reports evoked public interest in our proceedings throughout the Province.

Before we conclude our report we must take this opportunity of recording our warm appreciation of the valuable assistance we derived from our Secretary and his staff. They spared no pains

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to furnish us with the information we called for, often at short notice. In Sri K. Subrahmanyam we had an exceptionally efficient Secretary who combined unusual natural gifts for the work with unremitting industry and a wide knowledge of the co-operative movement, in this and other countries. Without the three volumes of evidence which he had ready for us and his illuminating notes, we should have found our task of travelling over so wide a ground as was covered by the questionnaire and the terms of reference much more difficult than it was. He is mainly responsible for the preparation of the report in which the various points of view especially on topics on which there was keen difference of opinion have been well and faithfully presented. But for his promptness and vigilance it would not have been possible for us to have made such a contribution as we have made towards the solution of the many problems affecting the future of the movement.

30*th April* 1940.

(Signed) T. VIJAYARAGHAVACHARYA.
(,,) V. RAMADAS PANTULU.
(,,) K. DEIVASIKHAMANI.*
(,,) M. SHIVA RAO.
(,,) K. BASHYAM.*
(,,) B. PATTABHI SITARAMAYYA.
(,,) KALA VENKATA RAO.
(,,) J. SIVASHANMUGHAM PILLAI.
(,,) ABDUR RAHMAN KHAN.
(,,) P. N. S. AIYAR.
(,,) B. S. MURTHY.
(,,) N. SATYANARAYANA.
(,,) K. A. NACHIYAPPA.
(,,) V. KURMAYYA.
(,,) R. SURYANARAYANA RAO.*
(,,) A. KARUNAKARA MENON.
(,,) P. J. THOMAS.
(,,) C. S. RATHNASABHAPATHI.
(,,) S. A. VENKATARAMAN.†
(,,) M. GIRIAPPA.†
(,,) T. A. RAMALINGAM.*

K. SUBRAHMANYAM,
Secretary.

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* Subject to the minute of dissent appended.

† We sign the report subject to the understanding that in our examination of the recommendations in our official capacity we may be obliged to take views different from those contained in the report.

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We, the Members of the Committee, sincerely feel that the Province owes a great debt of gratitude to our Chairman for the time he has given and the trouble he has taken to assist the Committee in dealing with problems for which expert advice and varied experience were necessary. We are fully conscious of the very strenuous and wholehearted manner in which he has worked for months at a stretch. He visited different parts of the presidency in order to gain first-hand knowledge of the movement. His wide experience as an administrator and as Chairman of various administrative bodies has been highly helpful to the Committee. In the end, we wish to express our whole-hearted appreciation of the unfailing courtesy coupled with firmness of control and of the spirit of compromise and good humour which the Chairman has shown all through our deliberations especially on occasions of heated debates. Put briefly, his role in conducting the sittings of the Committee has been really the role of a friend. philosopher and guide.

(Signed) B. PATTABHI SITARAMAYYA.
(,,) K. DEIVASIKHAMANI.
(,,) V. RAMADAS PANTULU.
(,,) P. J. THOMAS.
(,,) R. SURYANARAYANA RAO.
(,,) M. GIRIAPPA.
(,,) K. A. NACHIAPPAN.
(,,) K. BHASHYAM.
(,,) A. KARUNAKARA MENON.
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(,,) P. N. S. AIYAR.
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(,,) V. KURMAYYA.
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(,,) KALA VENKATA RAO.
(,,) N. SATYANARAYANA.
(,,) T. A. RAMALINGAM.
(,,) C. S. RATHNASABHAPATHI.

I was not present when the above resolution was passed, but I wish to add my tribute to the urbanity, tact, and good humour with which the Chairman conducted the deliberations throughout the prolonged sittings.

(Signed) S. A. VENKATARAMAN.

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DETAILED SUMMARY OF RECOMMENDATIONS.

Chapter III.—Rural Indebtedness.

RECOMMENDATION NUMBER.		PARAGRAPH NUMBER.
1	Effective legislation should be enacted (by amending section 14 of the Madras Debt Conciliation Act) for compulsory conciliation of debts, and facilities must be provided for scaling down debts on some principles definitely laid down by legislation.	81
2	Whenever an application is made by a debtor or a creditor, all the creditors of the debtor should, on receipt of a notice, disclose the debts due to them within a prescribed time and all the claims not so presented should be deemed to have been extinguished.	82
3	Suitable provision may be made to place scaled-down debts on a new footing with instalments for repayments.	83
4	Debt conciliation proceedings should not be confined to cases where creditors can be satisfied from loans from land mortgage banks.	83
5	A simple rural insolvency law on the lines recommended by the Royal Commission on Agriculture, the Indian Central Banking Enquiry Committee and other Committees should be enacted and insolvency tribunals should function in villages and promptly administer the law on the spot. If a separate enactment is not considered necessary, suitable provision relating to rural insolvency may be incorporated in the Debt Conciliation Act.	84
6	Protection must be given to the debtor not only to ensure to him a fair treatment in the determination and recovery of debts but also to prohibit his eviction without full compensation for improvements made by him if he is a tenant and to exempt his homestead and a minimum agricultural holding from attachment.	85

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RECOMMENDATION NUMBER.		PARAGRAPH NUMBER.
	credit in dry areas by offering the Central Land Mortgage Bank temporary accommodation either from the general revenues of the Province or from the Famine Relief Fund. The Madras Famine Relief Fund Act XVI of 1936 may be amended, if necessary.	
15	Provision should be made for the economic improvement of the ryots in dry tracts through adequate irrigation facilities including the sinking of wells, dry farming and organization of small scale and large scale industries.	94
16	Legislation on the lines of the 'Torrens system' may be undertaken and, if necessary, incorporated in the Madras Land Mortgage Bank Act (X of 1934).	96
17	Primary land mortgage banks should continue to function as independent organizations with affiliation, as at present, to the Central Land Mortgage Bank instead of being made its branches.	97
18	The elimination of non-borrowing individual members from the Central Land Mortgage Bank is not favoured.	98
19	Lending of long-term loans for discharge of prior debts should be done by land mortgage banks direct and not through village credit societies.	99
20	The Central Land Mortgage Bank should finance on a more intensive scale permanent productive improvements to lands.	100
21	The technical advice and help of the Agriculture, Industries, Revenue and Engineering Departments should be made available to the Central Land Mortgage Bank and Primary Land Mortgage Banks for issuing such loans.	100
22	Grant of loans by Government under the Agricultural Improvement Loans Act for land improvement in areas served by Land Mortgage Banks should be discouraged.	100

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RECOMMENDATION NUMBER.		PARAGRAPH NUMBER.
7	Legislation restricting alienation of agricultural land (apart from the land assigned to scheduled classes) is not favoured.	86
8	Existing mortgages of agricultural land in which the mortgagee has enjoyed the fruits of the land for not less than 25 years should be deemed to be extinguished.	87
9	No usufructuary mortgage of agricultural land should be permitted unless provision is made for automatic redemption within a fixed period of years, of which 20 should be the maximum.	87
10	Legislation should be undertaken for compulsory licensing of moneylenders. It should provide for proper maintenance of accounts by them, periodical inspection and audit of their accounts, fixation of a maximum rate of interest, imposition of an obligation on moneylenders to furnish periodical statements of accounts to debtors, prohibition of compound interest and the signing of the contract by borrowers, the contract being in the language of the district to which the borrowers belong.	88 and 89
11	The rate of interest prescribed under the Madras Debtors' Protection Act for other debts are high and require to be lowered.	88
12	Statutory restriction of credit by way of fixation of total future liability of agriculturists with a view to sterilization of credit is not supported.	90
	Chapter IV.—Land Mortgage Banks.	
13	A five-year plan of expansion of land mortgage banks so as to provide for at least 200 banks covering the whole Province is recommended.	93
14	Special arrangements should be made to enable land mortgage banks to help the ryots with long-term mortgage	94

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RECOMMENDATION NUMBER.		PARAGRAPH NUMBER.
23	Loans for land improvement should be charged a lower rate of interest than loans for other purposes.	100
24	Grant of loans for the purchase of lands by mortgage banks in special cases should be decided on their merits.	101
25	Loans smaller than Rs. 500 should be encouraged.	102
26	Loans for periods above seven years may also be given by land mortgage banks for genuine long-term productive purposes, the Central Land Mortage Bank undertaking to float debentures for 10, 15 or 20 years, as the case may be.	103
27	Loans for the discharge of prior debts for more than twenty years are not supported.	104
28	The Central Land Mortage Bank should float debentures for a slightly longer period than the period of loans in order to provide for extensions being given in deserving cases. (In the case of twenty-year loans, debentures for twenty-five years may be floated.)	105
29	The present system of making the debentures irredeemable for a definite period of not less than ten years certain and with option to the bank to redeem them thereafter is sound and should continue.	106
30	The margin between the borrowing rate of the Central Land Mortgage Bank and the rate at which money is made available to the ultimate borrower should be 2 per cent.	107
31	The proposal of the Reserve Bank of India that a borrower in a land mortgage bank might serve a period of probation in a primary credit society is considered impractical and is not supported.	108
32	No restriction should be placed on the simultaneous operation both by the Government and land mortgage banks	109

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RECOMMENDATION NUMBER.		PARAGRAPH NUMBER.
	for the supply of long-term money to the agriculturists for paying off their prior debts.	
33	In all cases of loans to agriculturists by Government the margin between their borrowing and lending rates should not exceed 2 per cent.	110
34	Land mortgage credit should be linked up with schemes of insurance.	111
35	Ordinarily, a borrower should not be required to buy more than one share compulsorily for each loan if the bank can raise otherwise the required owned capital.	112
36	The operations of land mortgage banks should be co-ordinated with schemes for debt conciliation.	113
37	Conciliation boards should give notice to the principal long-term agency concerned before they go on with their further proceedings.	113
38	Either the president or some other office-bearer of the land mortgage bank should be appointed a member of the conciliation board when it operates in a particular area.	113
39	The special staff of Land Mortage Bank Deputy Registrars should be discontinued with a view to avoid delay and secure greater efficiency and co-ordination among the co-operative agencies.	114
40	For this purpose the District Deputy Registrars should be relieved of a portion of their present work and the number of District Deputy Registrars should be increased if necessary.	114
41	The Co-operative Sub-Registrars in charge of land mortgage banks should be empowered to send all applications for loans not exceeding Rs. 5,000 direct to the Central Land Mortgage Bank.	114
42	The strength of the Co-operative Sub-Registrars should be increased in areas where there are large number of loan applications.	114

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RECOMMENDATION NUMBER.		PARAGRAPH NUMBER.
43	The President of the Central Land Mortgage Bank may be empowered to sanction all loan applications not exceeding Rs. 2,000, such sanction being intimated to the next Executive Committee.	114
44	There should be some machinery to compel creditors and others who may have a claim on the properties sought to be mortgaged to appear before the primary bank and to receive payment.	114
45	The assignment of mortgage bonds by primary banks to the Central Land Mortgage Bank may be dispensed with by suitable legislation.	114
46	Legal provision should be made to declare that unless full particulars of claim are furnished, no interest can be claimed by the creditor after the lapse of one week from the date of receipt of notice given by banks or by debtors.	114
47	Legislative provision should be made providing that any encumbrance for which documentary evidence of discharge is not available shall be deemed to have been discharged on the non-receipt of a reply within a specified time to a registered notice given by the Bank and that acknowledgments of such notices by parties shall be valid vouchers for satisfaction of encumbrances.	114
48	Provision should be made for the furnishing of information by landholders in zamindari areas.	114
49	Detailed enquiries as regards valuation of lands, etc., should not be dispensed with by land mortgage banks even in regard to the grant of small loans.	115
50	The concessions as regards registration fees and encumbrance certificates should be continued.	116

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RECOMMENDATION NUMBER.		PARAGRAPH NUMBER.
51	The continuance of the guarantee by Government of the principal of and the interest on debentures of the Central Land Mortgage Bank is recommended.	116
52	It is necessary that the Central Land Mortgage Bank should so arrange to do its business that in the long run it may be independent of Government guarantee.	117
53	The utilization by the Bank of its sinking fund for bringing up its debentures and purchasing subsequent issues of debentures which it may float for ensuring their popularity in the money market is recommended.	117
54	The Bank and the Trustee should be in close touch with the money market through a firm of brokers for estimating the lowest rate of interest on debentures which will be acceptable to the investing public.	117
55	In abnormal times, Government should come to the assistance of the Central Land Mortgage Bank and put it in possession of funds either directly or by floating a loan for the purpose.	118
56	The Reserve Bank of India should give its unstinted support to the Central Land Mortgage Bank either by itself purchasing some of its debentures or by making advances on any such debentures. It is suggested that the Provincial Government may take up the matter with the Reserve Bank of India.	119
57	Section 9 of the Madras Land Mortgage Banks Act should be amended so as to provide that the claim of the mortgage bank to the crop should be postponed to the extent of priority of the primary credit society; in other words, it should constitute a second charge.	120

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RECOMMENDATION NUMBER.		PARAGRAPH NUMBER.
58	Section 32 of the Madras Land Mortgage Banks Act should be amended so as to make it clear that debts incurred for improvements of lands for the creation of economic holdings should also be made binding on the minors of a joint Hindu family.	121
59	Legislative provision should be made so as to make all alienations of land to take effect only from the date of registration, at least in the case of mortgages in favour of land mortgage banks.	122
60	Provision should be made for all cases of attachments of, or charges on, immovable properties created by orders or decrees of courts to be communicated to the Registration department. If there be any difficulty in the registration of attachments, civil courts may be required to maintain a register of such attachments for the information of land mortgage banks.	123
61	The Government should continue the present staff of Co-operative Sub-Registrars at their own cost as heretofore.	124
62	Primary land mortgage banks must have their own supervisors as at present.	125
63	The audit of primary land mortgage banks should be done by qualified auditors of the rank employed for the audit of central and big urban banks.	126
	Chapter V.—Agricultural Credit Societies.	
64	A comprehensive plan of reconstruction of bad, moribund or indifferent societies should be taken in hand as early as possible. The methods of treatment of different categories of societies are suggested.	138–142
65	A voluntary pool of the reserve funds of primary societies in the area of a central bank and of the central bank concerned, with the Registrar as the	143

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RECOMMENDATION NUMBER.		PARAGRAPH NUMBER.
	Trustee is recommended for a temporary period for the write off of bad debts in societies which can, through such a measure, be rehabilitated.	
66	Societies beyond the scope of rehabilitation should be liquidated.	145
67	The problem of disposal of lands should be tackled at once by a scheme of 'rent-purchase' on the Burma model or other suitable methods with the help of long-term money to be provided by the Government or the Central Land Mortgage Bank.	146–149
68	Except those whose loans have proved definitely bad, other deserving defaulters should be given fresh finance.	150
69	A comprehensive five, seven or ten-year plan of expansion so as to bring every village in the Province within the orbit of village co-operatives should be drawn up and executed.	154
70	Small village societies should be reorganized on a wider basis by grouping them together into one society.	154
71	Propaganda in the principles and objects of co-operation should be undertaken preliminary to the formation of socities in villages.	155
72	Additional staff should, if necessary, be employed by Government for planned expansion of the movement on sound lines.	156
73	Alongside of expansion and reorganization, an intensive campaign for increased membership of societies should be launched with a view to replace money-lender's credit by co-operative credit within as short a time as possible.	157
74	Compulsory membership of eligible villagers in co-operative societies is not favoured.	158
75	The functions of agricultural co-operatives should be enlarged so as to include all the economic needs of members.	160

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RECOMMENDATION NUMBER.		PARAGRAPH NUMBER.
76	Promotion of subsidiary industries through village co-operatives or through separate co-operative organisations with suitable safeguards should be attempted and pushed through.	161
77	Village co-operatives should introduce improved methods of agriculture and seed and intensive methods of cultivation in order to ensure uniformity of crops and ultimately to facilitate consolidation of holdings.	162
78	Individual maximum credit limits for unproductive but unavoidable expenditure should be fixed by the village co-operatives.	163
79	The grant of loans in kind and recoveries in kind by the village co-operatives should be encouraged in suitable places to prevent misapplication of money and to train members of societies in co-operative marketing.	164
80	The liability of rural credit societies should normally be limited but if in the opinion of the Registrar, having regard to local opinion and other circumstances, unlimited liability is more suitable for any societies, liability may be unlimited.	165
81	No limitation on the term of office of office-bearers and panchayatdars of village co-operatives need be imposed.	167
82	The newly organized village co-operatives should have paid clerical staff with necessary training.	168
83	The system of group clerks is not recommended.	169
84	Honorarium and clerical remuneration to office-bearers for maintenance of accounts of societies or for specific services rendered may be permitted on a definite scale.	170

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RECOMMENDATION NUMBER.		PARAGRAPH NUMBER.
85	Future lending by societies to members should be carefully regulated and the members should be effectively prevented from being driven to money-lenders, and with this view a policy of full finance is recommended.	171 & 172
86	It should be open to central banks to relax the individual maximum credit limit of members of affiliated societies.	173
87	The Madras Provincial Co-operative Bank, central banks and primary credit societies must confine their operations to short-term and medium-term loans from the money raised through deposits of suitable duration.	174
88	Loans for the redemption of prior debts and for long periods are outside the scope of the provincial, or central banks and primary societies.	175
89	Short-term or working credit should be the first charge on the harvest and repaid out of the sale-proceeds of the next harvest.	176
90	The medium-term credit should be repaid out of the margin of the member's income, ordinarily from three to five years and in exceptional cases, seven years.	178
91	Loans for domestic expenditure or consumption purposes, while they cannot be eschewed altogether, require stricter scrutiny than has been the case in the past.	179
92	Loans against produce should be developed through village societies which should provide facilities for storing the produce in the interval between harvest and sale.	179
93	It is desirable that Government should extend financial assistance to village credit societies for the construction of indigenous godowns.	180

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RECOMMENDATION NUMBER.		PARAGRAPH NUMBER.
94	Loans against standing crops should be given only by agricultural credit societies, and not by sale societies.	181
95	Primary societies should be given the first charge on the produce of members' holdings raised with the help of loans advanced or other requirements supplied for seasonal productive operations subject to the overriding claims of the State in respect of land revenue, up to the extent of the loan advanced.	182
96	Village co-operatives may be permitted to give loans to their members on the pledge of jewels.	183
97	Members of agricultural credit societies should be provided with capital for their agricultural operations or other needs *with as much promptitude as possible.*	184
98	Sustained efforts should be made in the immediate future for the popularization of the *forecast system.*	186
99	Cash credits may be granted by central banks to select village credit societies to enable them to draw money and disburse it to their members as and when required.	187
100	A lower rate of interest on cash credit loans is commended.	187
101	The present practice of the Executive Committee of the Madras Provincial Co-operative Bank obtaining from the Registrar full information regarding central banks (which apply for loans) before sanctioning them requires modification.	188
102	Village co-operatives should control unproductive borrowing by their members and create a village public opinion against social extravagance.	189

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RECOMMENDATION NUMBER.		PARAGRAPH NUMBER.
103	The scheme of controlled credit may be given a fair trial in suitable localities with necessary modifications.	193
104	Rates of interest on new loans should be as low as possible but there should be sufficient margin between borrowing and lending rates so as to ensure the financing stability of societies.	195
105	The by-laws of village co-operative societies should be strictly enforced in the matter of recovery of overdues.	196
106	In the event of failure by village societies to take action, central banks should be empowered to take coercive steps against defaulters with a view to recover overdue debts.	196
107	The village co-operatives must adopt a technique of recovery suited to the actual economic and crop condition of the area in which they operate.	196
108	Extension should be allowed in all deserving cases, particularly when there is a general crop failure and the member is economically disabled from repaying the loan.	196
109	Section 53 of the Madras Co-operative Societies Act should be invoked in all cases of breach of provision regarding the first charge on produce.	196
110	A careful loan policy by central banks and constituent societies is called for, to avoid overdues.	196
111	Village co-operatives should aim at financial self-sufficiency by tapping local deposits and promoting savings among members.	196
112	All agencies—village credit societies supervising unions, central and land mortgage banks should aim at the segregation of overdue debts and their transfer to land mortgage banks.	196
113	The educational and moral tone of the management of societies should be improved.	196

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RECOMMENDATION NUMBER.		PARAGRAPH NUMBER.
114	In order to regulate the normal credits of members and facilitate the system of forecast loans, or cash credit or controlled credit, it is necessary to have the property statements prepared even in the case of societies adopting limited liability, with suitable modifications.	197

Chapter VI.—Societies for scheduled classes and aboriginal and hill tribes.

115	In view of the special circumstances of the scheduled classes, there is a necessity to have separate co-operative societies for the benefit of the scheduled classes; option may, however, be given to them to join the existing societies for other communities, wherever they so desire.	199
116	Members of scheduled classes, where they are already members of ordinary village co-operatives may be permitted to join scheduled class societies also for purposes other than borrowing.	200
117	The organization and supervision of the scheduled class societies should be entrusted to co-operative inspectors working under the Labour Commissioner through the District Labour Officers.	201
118	Government must undertake the financing of societies for the scheduled classes in the special circumstances of their present existence.	202
119	Government should undertake a ten-year plan of economic re-organization of scheduled classes and should offer facilities of agricultural colonization by the formation of co-operative societies for the purpose.	203
120	Subsidiary occupations and suitable cottage industries should be introduced for the members for profitably employing their spare time.	203

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RECOMMENDATION NUMBER.		PARAGRAPH NUMBER.
121	Loans in cash should be eliminated as far as possible, and their requirements, domestic and otherwise, should be supplied by the societies in kind.	203
122	Pawn shops should, wherever possible, be established for the benefit of the scheduled classes.	203
123	Propaganda and education among scheduled classes by proper men from their own community should be undertaken.	203
124	Compulsory labour among scheduled classes, wherever prevalent, should be abolished.	203
125	Suitable measures for debt relief should be enacted for the benefit of farm labourers and landless workers.	204
126	Government should formulate a comprehensive policy and concert measures for the educational, social and economic improvement of the aboriginal and hill tribes based on the results of a detailed survey of their existing conditions.	208
127	The appointment of a special officer for an enquiry into the conditions of these classes is recommended.	208
128	Co-operative societies of a special type to meet the needs of these classes should be organized and financed by Government, and run under Government control and supervision.	209
129	Measures should be formulated for relief of existing indebtedness amongst the hill tribes by scaling down and conciliation.	210
130	Sowcars and merchants should be prevented from coercing the hill men into parting with their produce in settlement of their debts.	210

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RECOMMENDATION NUMBER.		PARAGRAPH NUMBER.
Chapter VII.—Urban Co-operative Credit Societies and Employees' Societies.		
131	"Urban Banks" as such should be separately dealt with in departmental statistics and reports.	211
132	There should be only one bank for each urban area except in big cities like Madras.	213
133	Where the area is large, sub-societies may be constituted with due reference to local conditions.	214
134	Where sub-societies are not or cannot be formed, the election of directors should be arranged on the basis of the ward system or through an electoral Committee.	214
135	The term of office of the directors may be three years. The retiring directors should ordinarily be eligible for re-election; but it should be open to any urban bank or society to bar re-election for a specified period.	215
136	A system of retirement of directors by rotation is recommended.	215
137	A set of rules to regulate elections may be framed by the Registrar for the guidance of banks and societies.	215
138	Normally no special qualification is necessary for a director, but in special cases a minimum qualification by way of share-holding or deposits may be prescribed.	216
139	The suggestion that no director of an urban bank should be interested directly or indirectly in any contract made with the bank or any sale or purchase made by it privately or in any auction or in any contract or transaction is commended.	216
140	Wherever the banks are operating on a large scale and local condition requires it, paid secretaries may be appointed.	217
141	Urban Banks shall continue to give loans on the security of persons, mortgage	218

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RECOMMENDATION NUMBER.		PARAGRAPH NUMBER.
	of immovable properties, deposits of gold and silver and insurance policies. In the case of loans on gold and agricultural produce, the area may extend up to five miles provided there is no society there doing such business.	
142	Extension of loan business against gold and silver is recommended.	218
143	Loans against agricultural produce should be permitted only in the absence of sale societies in the area.	218
144	Urban banks should be entrusted with the duties of organizing and cautiously financing artisan classes and craftsmen in order to save them from exploitation by middlemen and money-lenders and to promote their economic interests and standard of living.	218
145	Urban banks should provide greater banking facilities to their customers such as extension of current accounts and cheque transactions, etc., but discounting of bills should not be undertaken.	218
146	Urban banks should extend cash credit facilities to their members on proper security.	218
147	A continuous and intensive 'drive' by urban banks should be undertaken for the greater encouragement of the habit of thrift through the provision of extended facilities such as thrift certificates and hundi boxes.	219
148	Immediate steps should be taken to reduce the arrears in urban banks and societies and to prevent accumulation in the future.	220
149	No change in the present standard of fluid resources to be maintained by urban societies is recommended.	221
150	The rates of interest allowed by urban banks should not exceed one half per cent over and above the rates on their borrowings paid by central banks working in the area.	222

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RECOMMENDATION NUMBER.		PARAGRAPH NUMBER.
151	Other suggestions for improved working of urban banks are made.	223
152	The direct affiliation of urban banks (with a working capital exceeding Rs. 5 laks) to the Madras Provincial Co-operative Bank is opposed.	224
	GOVERNMENT SERVANTS' AND OTHER EMPLOYEES' SOCIETIES.	
153	In places where there is a Government servants' co-operative society or an employees' society, Government servants and employees of district boards and municipalities may join such societies only; they should not be entitled to become members of any other *credit* society.	226
154	It should be impressed that employees' societies are primarily intended to promote thrift and savings and that they are providers of emergency credit only.	227–228
155	Compulsory savings should be enforced by distributing homesafes and hundis to the members of these societies.	229
156	Government should institute a scheme of compulsory life insurance and make subscriptions to the provident fund compulsory.	229
157	Where Government servants have insured their lives in other companies, provision should be made for deduction of the premia from their pay.	229
158	In the case of non-Government servants such as employees of local bodies, etc., provision should be made for compulsory insurance.	229
159	Employees' societies should encourage subsidiary occupations and cottage industries among members of employees' families. Government must render help in this direction by subsidies and lending officers.	230
160	A second loan should not ordinarily be issued to a member of a Government servants' or employees' societies before	231

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RECOMMENDATION NUMBER.		PARAGRAPH NUMBER.
	he has repaid a certain portion of the first or before the expiry of a specified time from the date of the last loan.	
161	A higher rate of interest may be charged on the sum borrowed in excess of the members' own contributions to the thrift fund.	231
162	The individual maximum credit should be limited to four times the salary of the member provided it will be open to the society to grant loans beyond the limit against jewels or other valuable securities.	232
163	The Government should take power to permit pay-disbursing officers to deduct from the salary of their servants instalments of loans or other contributions due from them towards Government servants' societies and other employees' societies.	233
164	Where there are transfers of employees from the area of one society to another, the lending society should have the power to require the officers in the latter area to make necessary deductions.	233
165	Some protection should be given in respect of debts due to co-operative societies, and Civil Procedure Code or the rules under the Madras Co-operative Societies Act may be amended so as to provide for the attachment of salaries of Rs. 50 and above.	234
166	Employees' societies may attempt a system of joint purchase and sale of members' more common domestic requirements by collecting indents from them.	235
167	Heads of Departments must be instructed to take interest in the working and welfare of Government servants' co-operative societies and if the members so desire, they may be made also the presidents of the societies concerned.	236

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RECOMMENDATION NUMBER.		PARAGRAPH NUMBER.
168	Government should make it obligatory on the part of employers of industrial labour to start and run co-operative societies for their workers.	238
169	The workers should be paid their wages weekly instead of monthly.	239
170	Provision should be made in the rules for the constitution in big employees' societies of smaller bodies of representatives or delegates in place of the present general body of members, in order to ensure a fuller consideration of the subjects and of proper representation of all sections of opinion.	240
	Chapter VIII.—Co-operative Central Financing Organizations.	
171	Co-operative central banks should continue to be independent financing banks for their respective areas and affiliated to the Madras Provincial Co-operative Bank as at present and should not be converted into branches of the Provincial Bank.	241–242
172	Central banks should not be split up into small units, popularly known as taluk banking unions.	243
173	Central banks should be constituted on the basis of one bank for one revenue district without prejudice to any scheme of amalgamation, where local co-operative opinion favours such amalgamation.	244
174	In order to make central banks pure type banking unions composed of affiliated societies alone, individual share-holders should be eliminated from central banks.	245
175	Central banks should co-opt three individuals to their boards of management and provide for such co-optation in their by-laws.	246
176	Representation of depositors on the boards of management of central banks is not recommended.	247

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RECOMMENDATION NUMBER.		PARAGRAPH NUMBER.
177	Central banks are advised to encourage deposits for one to three years, and to place themselves in possession of adequate funds for supplying medium-term capital.	251
178	The present restriction imposed by Government regarding investment of deposits by local bodies in central banks should be withdrawn.	252
179	Central banks should ordinarily rely on their own funds for the return of deposits on due dates; in exceptional cases, the Provincial Bank may also lend to the central banks for this purpose.	253
180	The money advanced by central banks to marketing societies should not be taken into account in arriving at their maximum credit limit fixed at ten times their owned capital.	254
181	The present proportion of allocation of net profits of central banks towards reserve funds should be continued.	255
182	No change is called for in the present mode of investment of reserve funds of central banks.	256
183	Bad debts (which have been definitely ascertained) should be written off every year and necessary adjustments made to reduce bad debt reserve and reserve fund once in three years with the approval of the Registrar.	257
184	The method of estimating Bad Debts by actual enquiries with reference to securities, repaying power, etc., is satisfactory and should be done with greater care.	257
185	Overdues both of principal and interest should be separately set out in the balance sheets of central banks as also loans for which extensions have been given.	258
186	The present standard and form of fluid resources are satisfactory and no change is called for.	259

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RECOMMENDATION NUMBER.		PARAGRAPH NUMBER.
187	The cash credits given by the Madras Provincial Co-operative Bank to central banks against co-operative paper should also be included for purposes of fluid resource for their *outside* liabilities also.	260
188	The operations of central banks should be limited to short-term and medium-term loans. The medium-term loans should not run normally beyond five years, in exceptional cases five to seven years and in no case beyond seven years.	261
189	Central banks should lend only to affiliated societies, and not to individuals.	262
190	Government should give subsidies and loans to central banks for the construction of godowns for the provision of storage accommodation and for promoting agricultural marketing.	263
191	Central banks may be permitted to develop a safe custody department and to take a re-pledge of the gold on which societies have lent sums to their members.	264
192	Central banks should interest themsevles in all co-operative activities and should finance societies intended for cottage industrialists and artisans.	265
193	Central banks may be empowered to proceed against individual members of societies if the panchayats neglect to recover the dues from them.	266
194	Central banks may continue or undertake commercial transactions and banking business of all kinds (excepting discounting of bills).	267
195	There should be a closer contact with and mutual arrangements between commercial banks and co-operative banks for collection of bills, etc.	267

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RECOMMENDATION NUMBER.		PARAGRAPH NUMBER.
196	The existing concession of free transmission of funds for bona fide co-operative transactions should be continued by Government.	268
197	The present practice of adjustment of share capital of societies in central banks towards loans due by them may continue.	269
198	The payment of preferential dividend and issue of preferential shares by central banks may be done away with.	270
199	Co-optation of five individuals to the Board of Management of the Provincial Bank is recommended.	272
200	The formation of two apex banks, one for the Andhra districts and another for the Tamil districts working under the Registrar of the Province and with headquarters in the City of Madras with the option for Malabar and South Kanara to determine their own affiliation is recommended.	273
	Chapter IX.—Co-operative Marketing Societies.	
201	The need for regulating or reducing the freight rates should be periodically and forcefully impressed upon the railway authorities.	280
202	The maintenance of canal in an efficient condition is recommended.	280
203	The Madras Commercial Crops Markets Act (Act XX of 1933) should be extended to other suitable areas with a view to control and regulate market conditions and standardization of market practices.	281
204	Market Committees should fix agreed standards and draw up standard contract forms.	282
205	There should be standardization of grades in the several commodities.	282
206	Extensive propaganda should be undertaken by societies and market committees through leaflets and talks to	283

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RECOMMENDATION NUMBER.		PARAGRAPH NUMBER.
	educate the grower or the trade to deal in produce of good quality and in the fixing of limits of refraction or moisture and standardization of the produce.	
207	Better dissemination of market intelligence should be ensured to the producers and their organizations by all possible means such as rural broadcasting and posters.	284
208	The existing loan and sale societies should be renamed "marketing societies" and they should concentrate their activities rather on marketing and sale than on granting loans against produce. Marketing societies, nay, however make advances against commercial produce having concentrated markets and brought to them for sale.	286
209	Marketing societies may be formed at the headquarters of each taluk with branches in firkas, and they should deal directly with wholesale merchants and consuming markets for the sale of members' produce.	287
210	The system of "controlled credit" should be extended on a large scale and loans given for the supply of improved seed, implements, manure, etc., by village credit societies.	288
211	The help given by Government by way of Marketing Inspectors should be extended to a larger number of societies to be formed in future.	289
212	The new marketing societies to be formed should give subsidies, in the initial stages, towards meeting the cost of management and methods of processing, etc.	289
213	The Provincial Government should continue to give marketing societies subsidies of 25 per cent even if the Government of India grant be discontinued for the construction of godowns.	290

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RECOMMENDATION NUMBER.		PARAGRAPH NUMBER.
214	Marketing societies should be encouraged to issue to growers warehouse receipts on the pledge of produce stocked in their godowns and these certificates should be made negotiable under the guarantee of Government or of Central Banks.	291
215	Loans to the ultimate borrower-producer should not be advanced at a rate 1½ per cent more than the rate at which the Madras Provincial Bank lends to Central Banks.	292
216	There should be no maximum credit limit for loans advanced against paddy to individual ryots and for other crops Rs. 5,000 should ordinarily be the maximum, discretion being given to the Registrar to enhance the limit in special cases.	293
217	Marketing societies should deal only with producers, and persons other than producers should be strictly prohibited from the operations of these societies.	294
218	Marketing societies should be formed and encouraged for the benefit of agriculturists in the zamindari areas.	295
219	*Special crop marketing societies* for single crops, comprising all convenient areas of production, should be started at suitable market centres to provide facilities for the growers to market their produce.	296
220	Methods of work of special crop marketing societies are indicated and should be observed.	297
221	Marketing societies should adopt proper safeguards and business principles of the kind described.	298
222	For the promotion of agricultural marketing a special marketing department should be created. If such a department cannot for any reason be created immediately, all the marketing officers	300

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	now working under the Agricultural department should be transferred to the Co-operative department so as to ensure co-ordination between marketing organization and marketing credit.	
	Chapter X.—Handloom Industry and Weaver's Societies.	
223	Measures should be formulated (by legislation if necessary) for the adjustment of the spheres of production of the powerloom and the handloom or to restrict the production of mill cloth by fixing quota or otherwise.	303
224	Adequate cess should be levied on the sale of mill cloth, Indian and foreign, at a rate sufficient to counteract the effect of competition.	303
225	Licence-fee on mill-cloth dealers should be increased.	303
226	Differential freight rates for transport by railway of mill and hand-made products should be introduced, so as to give the handloom product an advantage.	303
227	The subsidy now granted under the Government of India scheme should be extended for another five years.	304
228	The present annual subsidy is inadequate and should be increased, the Provincial and Central Governments bearing the increase in equal proportion. Part of the subsidy may be in the form of free services of officers.	304
229	The supervision and inspection of weavers' societies should be done for the next five years at least at the expense of Government through the Co-operative department.	305
230	Primary production societies should be reorganized on a sounder basis.	306
231	The organisation of big societies must be differentiated from that of smaller ones which produce popular cloth largely used by the rural population.	307
232	The production of artificial silk cloth on handlooms should be discouraged.	308

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RECOMMENDATION NUMBER.		PARAGRAPH NUMBER.
233	The Central Emporium and the local sale depots of the Provincial Handloom Weavers' Co-operative Society should function as central display houses and information bureaus to both producers and consumers.	309
234	By a co-ordination of the efforts of the Industries, Co-operative and Marketing staffs, the products of the handloom industry should be encouraged by display, advertisement, etc.	309
235	Import of foreign yarn into the country should be controlled.	310
236	The production of Khadi with the aid of the All-India Spinners' Association through the agency of primary production societies should be promoted.	310
237	The primary production societies should be affiliated to the Provincial Handloom Weavers' Co-operative Society and the central bank of the district and should obtain their finance only from one of these two sources.	311
238	The Provincial Handloom Weavers' Society should finance those societies whose requirements do not exceed Rs. 1,000 at any time. The societies whose requirements exceed Rs. 1,000 should be financed by the central bank.	311
239	Loans to the primary production societies may be granted upto five times the owned capital including their share capital and their reserve fund. In addition to these, loans may also be given against a floating charge up to 50 per cent of the value of goods taken into stock.	311
240	The functions of the Provincial Handloom Weavers' Co-operative Society are defined.	312
241	Government must be the main financing agency for the Provincial Weavers' Society by taking shares in the society and by granting loans to it.	313

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RECOMMENDATION NUMBER.		PARAGRAPH NUMBER.
242	The Madras Provincial Co-operative Bank can be an additional agency for supply of credit only on the pledge of goods on certain conditions.	313
	Chapter XI.—Cottage Industries.	
243	There are possibilities of development of specific cottage industries, on a co-operative basis, which should receive attention.	315
244	A Provincial Industrial Society should be established to organize and administer the production societies for industries other than handloom weaving.	316
245	A scheme of financing similar to that recommended for the primary weavers' societies and for the Madras Provincial Handloom Weavers' Society is recommended.	316
246	If necessary, two provincial societies may be formed; one for the north and the other for the south and the west.	316
	Chapter XII.—Womens' Societies.	
247	Societies for upper and middle class women should act as centres of culture, propaganda and education and take to small home industries such as preparation of jams, preserves, pickles, etc.	318
248	Poorer and lower middle class women should be encouraged to undertake small home or cottage industries such as hand-spinning, basket-making, mat-weaving, bee-keeping, etc.	319
249	An attempt should be made to start societies or organize separate sections in some of the existing co-operative organizations to advance small loans to these women, to recover the advances in driblets day by day and to promote thrift among them.	319
250	Paid staff should be appointed to give an impetus for the formation of women's societies, and to promote home industries in such societies.	320

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RECOMMENDATION NUMBER.		PARAGRAPH NUMBER.
	Chapter XIII.—Co-operation and Rural Reconstruction.	
251	The Bombay scheme of rural development is not considered suitable for Madras conditions and its adoption is not for the present favoured.	325
252	There is need for a greater degree of co-ordination between expert departments particularly those development departments which are immediately concerned with the welfare of the agriculturists.	326
253	The appointment of a Development Commissioner for co-ordination of work of "nation-building" departments is not recommended.	327
254	There should be a Provincial Standing Committee and district standing committees for co-ordination of work of development departments.	328
255	A Provincial Standing Committee consisting of the Heads of development departments and a certain number of non-officials having as its Chairman the Development Minister and as its Secretary an Under Secretary to Government should be constituted to secure co-ordination between the development departments and to make them related parts of a comprehensive whole.	328
256	There should be a redistribution of portfolios among the Ministers so that the Chairman of the Provincial Standing Committee may be in charge of all the development departments which are intimately concerned with rural welfare.	328
257	District standing committees consisting of officers of various departments with the Collector as its ex-officio Chairman should be constituted with the same purpose in view.	328
258	The work of rural betterment should be carried on with the help of properly trained rural guides.	329

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RECOMMENDATION NUMBER.		PARAGRAPH NUMBER.
259	Rural reconstruction should be brought about by a co-ordination of the activities of the village co-operative societies and the village panchayat. At present co-operative societies should be entrusted with the main burden of this work.	330
260	Separate better living societies are not necessary. Existing societies should be reorganized in such a way that a single organization serves all the economic needs of the villager and promotes village welfare.	331–332
261	Steps should be taken to increase food crops by all possible means in order to make the Province self-sufficient in respect of her food supplies.	335
262	The output of food crops should be increased through the adoption of a well-planned scheme of distribution of improved seed through co-operative societies and rural reconstruction centres.	336
263	Agricultural over-population from which the Province now suffers should be remedied by a rationalization of agriculture and agricultural colonization.	339
264	Detailed investigations should be made of localities in each district where large tracts of land are available for assignment for purposes of agricultural colonization.	340
265	Colonization schemes should be undertaken by Government as reclamation for the creation of new agricultural wealth on the lines and conditions recommended.	340
266	A gradual increase in the number of consolidation societies should be encouraged.	341
267	Arbitration co-operative societies may be started as an experimental measure in select districts.	343

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RECOMMENDATION NUMBER.		PARAGRAPH NUMBER.
268	The formation of cattle insurance societies is not recommended in view of the difficulties involved.	347
269	The efforts of the department should be directed towards the formation of cattle-breeding societies.	348
270	Crop insurance on co-operative lines is not possible and is not therefore recommended.	349
	Chapter XIV.—Thrift and Savings.	
271	Credit societies should tend to transform themselves into savings and banking agencies.	353
272	Village credit societies should provide for linking up savings with some definite objective or purpose.	354
273	A sustained thrift campaign should be launched by the introduction of hundi box system among members of agricultural credit societies and petty loans may be granted, if need arises, against these savings to prevent withdrawals of the savings.	355–356
274	Wherever possible, the hundi boxes may be substituted by savings or thrift certificates, which may be made negotiable.	357
275	Village credit societies should induce members to contribute savings in kind out of each harvest.	358
276	Celebration of 'Thrift day' and vigorous 'Thrift drive' through lantern lectures, bhajana parties, etc., are recommended.	359
277	The transfer of the control of postal savings bank organization of the Central Government in this Province to the Madras Government is not recommended.	361
278	Co-operative urban banks also should institute the system of savings certificates, hundi boxes, etc., to suit their requirements.	363

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RECOMMENDATION NUMBER.		PARAGRAPH NUMBER.
279	There should be compulsory insurance for Government servants and compulsory provident fund for employees of firms.	364
280	Thrift and use of money to be included in the curricula of studies in schools and colleges.	364
281	Central banks and urban banks may open small branches in schools to create banking habit in the school children.	364
	Chapter XV.—Supervision, Education and Training.	
282	The question of retention or abolition of local supervising unions should be left to the decision of the central banks concerned.	368
283	Suggestions for the improved working of unions (wherever retained) are made.	369
284	The question of the constitution of one or more committees in central banks for the purpose of supervision should be left to them for decision.	370
285	Central banks may nominate one or two individuals to the governing body with the consent of the unions.	371
286	Appointment of Supervisors as Secretaries of Unions is not recommended.	372
287	The mode of levy of supervision fund should be left to the discretion of individual central banks.	373
288	Four linguistic unions should be formed and entrusted with the functions of the present Provincial Union.	375
289	The Provincial Co-operative Union should have a federal constitution and be composed of the four linguistic unions and be styled as the Provincial Co-operative Federation.	376
290	The Provincial Co-operative Federation should make provision for co-opting individuals and giving them the rights and privileges of members.	376

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RECOMMENDATION NUMBER.		PARAGRAPH NUMBER.
291	The starting of a Co-operative College for aspirants for employment in the Co-operative Department and for higher posts in big urban and central banks, etc., is recommended. The College should be a Government college.	379
292	The courses of study and syllabus should be settled by the academic authorities of the University.	380
293	The Government should have the help of an advisory council in the administration of the college.	381–382
294	Two co-operative institutes, one for the Northern and the other for the Southern districts should be established and entrusted to non-official management.	383
295	Government should introduce a book on co-operation and rural uplift for non-detailed study in high schools run by them or with their grants.	384
296	The University should introduce suitable text-books on co-operation for the college courses for non-detailed study.	384
297	There should be a greater co-ordination of effort between non-official co-operative agencies and the co-operative department in the matter of co-operative propaganda and education.	384
	Chapter XVI.—Statutory Functions of the Registrar.	
	AUDIT.	
298	The statutory responsibility of the Registrar in the matter of audit of co-operative societies should be maintained.	386
299	The entire audit staff of the department should be constituted into a distinct branch and differentiated right through from the administrative branch.	387
300	The audit staff should be placed directly in charge of Circle Audit Officers of the status of Co-operative Sub-Registrars.	388
301	A qualified auditor of the status of a Deputy Registrar to be styled as the Chief Audit Officer should be attached to the Registrar.	389

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RECOMMENDATION NUMBER.		PARAGRAPH NUMBER.
302	A high quality of departmental audit should be secured and the audit should be done by inspectors adequately trained in audit.	390
303	The present system of employing full-time Government auditors should be continued.	390
304	Audit of urban and central banks by registered accountants and auditors selected from a panel is not recommended.	390
305	The audit of provincial Co-operative institutions may be entrusted to registered accountants and auditors appointed by the Registrar.	391
306	The extra expenditure involved in the separation of audit from administration should be met from the provincial revenues.	392
307	The present exemption from audit fees in respect of certain classes of societies should be continued.	393
308	The present scale of audit fees of Rs. 5–8–0 and Rs. 3–8–0 a day should be reduced to Rs. 3–12–0 and Rs. 3 per day respectively.	394
309	Sale (marketing) and handloom weavers' societies should be exempted from the levy of audit fees for the first three years and also for a subsequent period of three years, if necessary.	395
310	The maximum audit fee levied should not exceed one-fourth of the net profits of societies as declared by the Registrar.	396
311	The Registrar should be empowered to give rebate to any society up to a prescribed limit in cases of hardship.	397
	ARBITRATION.	
312	The existing arrangements for the disposal of arbitration references are satisfactory and no change is called for.	398

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RECOMMENDATION NUMBER.		PARAGRAPH NUMBER.
313	No change is called for in the existing scale of fees levied on arbitration references.	399
	EXECUTION.	
314	Power should be given to the Co-operative department to give purchasers the delivery of possession of properties sold in execution of decrees or awards.	400
315	Investing the Secretaries of central banks with sale powers is not recommended.	401
	SUPERSESSION.	
316	The provision in the Co-operative Societies Act for the supersession of committees of societies is of practical utility and should be retained.	402
317	The committee of a registered society should not be superseded without the previous concurrence of the financing bank.	403
318	It should be obligatory on the Registrar to convene a meeting of the general body of a society before actually dissolving the committee, except in special cases.	403
319	The powers vested in the general body of a society should not be affected by the supersession of the committee.	403
320	An appeal should be specifically provided for against every order of supersession to the Local Government.	403
321	Removal of one or more members of the committee of a society is not recommended.	404
	LIQUIDATION.	
322	Measures taken by the Registrar for accelerating liquidation work are endorsed.	405
323	The appointment of non-official liquidators may be tried in urban centres or for a convenient group of societies.	406

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RECOMMENDATION NUMBER.		PARAGRAPH NUMBER.
324	The Secretary of a central bank should be made the liquidator when the registration of a society indebted to the central bank is cancelled.	407
325	To prevent alienation of properties by members, no member of a society ordered to be liquidated should be free to alienate his property to the prejudice of the claim of the society during the pendency of the appeal to the Government and within fifteen days thereafter.	408
326	Properties of members should be made liable for immediate attachment by a specific application by the liquidator in that behalf.	409
327	Systematic steps should be taken for the early recovery of assets of liquidated societies and contribution orders, wherever necessary, should be passed without any undue delay.	410
328	No contribution order or execution proceedings for debts due to a liquidated society should be deemed valid six years after the society had been finally ordered to be liquidated.	411
329	Central banks should be permitted to recover a sum not exceeding 7½ per cent of the collections in liquidated societies for expenditure incurred by them in connextion with liquidation proceedings.	412
330	The present scale of fees for liquidation work is adequate and no change is called for.	413
331	The lands bought in by liquidators should be disposed of by granting, if necessary, favourable terms to original owners or their next-of-kin.	414
332	Following the practice in some British Indian Provinces, the Madras Co-operative Societies Act should be suitably amended to provide for the winding up of the affairs of a society before its registration is cancelled.	415

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RECOMMENDATION NUMBER,		PARAGRAPH NUMBER.
	Chapter XVII.—Government and Non-official Staff.	
333	Territorial redistribution of Inspectors is not recommended in view of the proposals for separation of audit from administration.	418
334	Assistant Registrars' charges should be raised into Deputy Registrars' charges.	419
335	The Province should be split up into four or five divisions and each division should be placed in charge of a Divisional Registrar, starting with the immediate appointment of two Divisional Registrars on a regional basis.	421
336	Rules regarding service conditions of non-official employees should be embodied in the rules framed under the Act.	423
337	General features of service conditions of non-official employees are indicated.	424
338	Provincialization of the services of employees of urban banks and central banks is not recommended.	425
	Chapter XVIII.—Legislation.	
339	Certain amendments to the Madras Co-operative Societies Act are suggested.	426
	Chapter XIX.—Conclusion.	
340	Publication of the Report of the Committee in the main languages of the Province is recommended.	431

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Note of dissent by Sri R. Suryanarayana Rao.

I regret very much I have to put in this minute of dissent to the majority report. I feel this could have been avoided if a desire to realize the differing points of view and meet the other side in compromise had prevailed.

Unlimited liability.

The first important topic is in regard to the nature of the liability on which the village societies should be organized. It will be recognized by all schools of thought that the two basic principles of co-operation—mutual knowledge and mutual trust—are vital for the promotion of corporate life in our villages. As in social and other spheres, we are all anxious to promote joint action in the economic sphere. Is not the principle of unlimited liability which is founded on mutual knowledge and mutual trust best fitted to inculcate the desire to join in a common endeavour, forgetting all differences based either on creed or caste or wealth and work for a common cause? Is not the principle of unlimited liability designed to practise in actual life the fundamental principle of co-operation "Each for All and All for Each"? Is not the practice of this principle in all matters which vitally affect our daily lives, calculated to remove communal and other acerbities and promote unity? Is it wise now to change the fundamental basis of co-operation and install in its place a principle which virtually promotes the feeling "Each for Each"? The protagonists of the limited liability principle seem to be too much obsessed with the consequences following from unlimited liability rather than pay heed and recognize the advantages accruing from it. After all the revival of village corporate life and the introduction of institutions into the village which promote such corporate life are more important than the hardships which the enforcement of unlimited liability may under exceptional circumstances impose on a few individuals. It should not also be forgotten the introduction of the limited liability principle does cause the division of the community into different grades according to the wealth one possesses, as the credit-worthiness of a member of a society is then based not on character but on the amount of real wealth he possesses. Is it right and proper that while already undue emphasis placed on religious and cultural differences has divided us into different warring groups, that we should think of introducing the principle of limited liability which creates economic differences? The practice of the unlimited liability principle, binding as it does the different groups for a common economic purpose, promotes unity and thereby the corporate life in our villages. The limited liability principle deprives the deserving poor of the assistance they need to rehabilitate themselves. Moreover, the sense of responsibility and the power of discrimination now exercised by the panchayat of a

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society in dealing with loan applications will no longer be necessary as it is not the purpose for which the loan is sought and the character of the individual seeking it that will be the main considerations, but only the credit-worthiness based on considerations such as those which influence the ordinary banking institutions in granting loans. Is this absence of responsibility and discrimination calculated to build up a higher type of character in our villages? Is not the exercise of these virtues enjoined by the unlimited liability principle no mean asset for our national life? Is the enthronement of the principle " Each for Each " in the best interests of the country?

Apart from the moral or ethical grounds let me deal with other practical considerations. The high authority of the late Mr. Gokhale has been quoted, taking the words from their context. Mr. Gokhale recognized unlimited liability strengthened the position of the societies greatly in the money market. It should also be remembered what Mr. Gokhale said was in 1904. Can anyone shall maintain that conditions in rural areas have not changed and that we have made no progress at all? To say what Mr. Gokhale said is as true to-day as it was when those words were uttered betrays ignorance of the progress we have made since then. If things are now as they were in 1904, our demand for self-government in various spheres loses much of its force. The next argument advanced is about the enforcement of unlimited liability in recent years. In the note on questions Nos. 57–58, the Secretary gives figures relating to enforcement of unlimited liability in liquidated societies and observes as follows :—

> " Compared to the amount to be realized or liabilities to be paid off, the amount of contribution orders levied is indeed very small. Even in relation either to collections made or to the amount written off in liquidated societies, the amount of contribution orders passed is not high. Moreover, it may be seen that out of the number of contribution orders passed, those relating to amounts below Rs. 250 are the largest. Further, enforcement of unlimited liability is not made in all districts to the same extent; a fairly large number of contribution orders were passed only in a few districts, i.e., Malabar, Guntur, South Kanara, Anantapur and East Godavari. The maximum amount of a contribution order may be high in some districts, but presumably, such orders might have been passed with due reference to the circumstances of the case and individuals concerned or the amount involved."

It is not known how many of those in respect of whom unlimited liability has been enforced are either non-borrowers or non-defaulters. Moreover, the enforcement of unlimited liability has

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been forced only during the last few years though the principle has been in vogue since 1904. The causes for necessitating the enforcement of the unlimited liability must be sought elsewhere. It is also argued that unlimited liability has kept away the solvent or better class of agriculturists whose sympathies and material and moral help if secured would be advantage to the society. This is not true. In fact the desire to be helpful to one another is the outstanding feature of village life and if really these classes had kept aloof, the societies could not have been able to carry on such large number of transactions which have materially contributed to the building up of the movement. The present prosperity of the movement and the various financial agencies within it are due entirely to the agricultural societies which have carried on business on the basis of unlimited liability. Moreover, in the absence of statistics to show that the better class of agriculturists have kept aloof from the movement and in view of the enormous amount of business conducted by the village societies, any one is perfectly justified in thinking that this bogey has been raised now simply because in a few cases unlimited liability has been enforced for special reasons such as negligence and indifference. The Maclagan Committee which went into this question came to the conclusion that the unlimited form of liability had no appreciable effect in keeping out the richer peasants. It is true that persons joining the society are not prevented from alienating their properties during the period of their membership and the liability is only contributory. Statistical information furnished does not show at all that there have been many cases in which members have alienated their properties surrentitiously for fear of enforcement of unlimited liability. Such figures as are available show that such alienation in a few districts has taken place only during the last three years. As already stated the causes for this abnormal state of things during the last three years have to be sought elsewhere. While it is true to some extent it is efficient management that induces confidence in financing banks and depositors, there is no denying the fact, as the Maclagan Committee observe, the unlimited liability constitutes an important factor in the confidence reposed in societies by the central institutions inside the movement and joint-stock banks outside. Sri Rao Bahadur M. Giriappa, Acting Registrar of Co-operative Societies, opines that if unlimited liability is altogether taken away it might to some extent check flow of funds into the movement. He also states, " Central banks still look up to unlimited liability as an important source of ultimate security for the sums lent. To the societies, it is the cheapest form of security and the only one that could be developed amongst people from whom large share capital cannot be raised. Moreover, a wholesale changeover to limited liability might react upon the financial stability of the movement apart from *diminishing co-operative character of the societies.*" It is said that the written replies received reinforce the view that a change in the form of liability

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will not interfere with the progress of the movement. As far as one can observe the written replies do not indicate the existence of such a view. It is also said that the weight of evidence received on this question is definitely in favour of a change from unlimited to limited liability. An analysis of the evidence will show that this statement is not borne out by facts. As I pleaded, further evidence ought to have been recorded on this question from representatives of various interests affected by the change. If this had been done I have no doubt opinion would have been against any change. If at all, there would have been opinion in favour of the wording suggested by the Provincial Co-operative Bank and the Madras Provincial Co-operative Union. Their suggested amendments to the Co-operative Societies Act are there should be provision for the registration of societies on limited or unlimited liability basis and that in regard to societies registered with limited liability, the liability shall be limited by guarantee and not by shares. The majority subscribe to the astounding statement that possession of mutual knowledge is not one of the realities of village life to-day. No one acquainted with village life can subscribe to this statement. Even if the situation is as bad as it is depicted, is it proper, interested as all of us are in the promotion of village corporate life, to introduce a principle whose effects make the position still more deplorable?

While I have attempted to answer arguments advanced in favour of the change, the point of view of the minority for the retention of unlimited liability has been admirably and faithfully set forth in pages 158–160 of the report. An attempt was, however, made by Sri T. A. Ramalingam Chettiyar to give the discretion to the Registrar of Co-operative Societies to register societies on either limited or unlimited liability basis according to the opinion prevailing in a particular area. This proposition was lost by a narrow majority. His amendment runs thus :—

> " In future, societies may be formed on the limited or unlimited liability basis as the opinion in the particular area in which the society has to be formed may demand. In case of societies serving large areas or undertaking largely activities other than credit, they will have to be organized on a limited basis. The Registrar will be given discretion in the matter."

Having failed to make the majority accept the reasonableness of Sri Chettiyar's proposition, I moved the following proposition which shared worse fate than that which was meted out to Sri Chettiyar's proposal :—

> " The agricultural credit societies may be organized for a village or group of villages according to local circumstances, provided the two basic principles of mutual knowledge and mutual trust—so vital for the promotion of village corporate life—are observed. The liability of

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such societies shall ordinarily be unlimited provided that the liability may, if in the opinion of the Registrar, circumstances so require, be limited by shares or by guarantee, that is to say, each member shall be liable to contribute to the assets of the society in the event of its being wound up, for the payment of the debts and liabilities of the society and of costs, charges and expenses of winding up and for adjustment of the rights of the contributaries, such amount as may be required but not exceeding the amount to be specified in the by-laws of the society."

"This shall be applicable to societies to be organized in future."

It is, however, gratifying to learn that the Registrars' Conference which met later expressed the same opinion. It is needless to say the dictates of wisdom and prudence should make everyone see the reasonableness of the minority view. The resolution of the Registrars' Conference is couched in this manner :—

"Agricultural credit societies, other than multi-purpose societies which are the subject of a separate resolution, should ordinarily continue to have unlimited liability but scope may be given for experiments with such societies with limited liability."

It may be interesting to know that since the beginning of the movement in Japan, limited liability was the rule and it is said that more than 90·4 per cent of the co-operatives were working on the limited liability basis. But this percentage fell to 29·9 at the close of the year 1935. This change was caused by the amendment of the Co-operative Law in 1932, which prescribed that all the existing co-operative societies with limited liability be transformed within five years into those of unlimited liability or guaranteed liability. The importance of the change will be appreciated if it is known that most of the co-operatives in Japan are formed for the most part in rural areas with members who are mostly agriculturists of limited means. It is authoritatively stated that in 1936, 70·3 per cent of the total membership consisted of agriculturists only. The changeover to unlimited liability was mainly due to the fact that it was found the panchayats of the co-operative societies had not exercised their sense of responsibility properly in sanctioning loans to members. Moreover, Japanese are great believers in the "spiritual principles" underlying the co-operative movement and they felt that they can best be practised and cultivated only if the co-operatives were conducted on the unlimited liability basis.

While the Committee does not favour what is called "compulsory co-operation," it recognizes the need for the expansion of the village credit co-operatives, their organization on a wider

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basis and the need for increased membership. The Committee also state in paragraph 157 of the report "As far as possible, there should be scope in village credit societies for all sections of the community each of which has definite economic and social needs." I wish the majority had paused and considered how this plan can be successfully carried out by adopting the limited liability principle which virtually restricts the membership of the co-operatives to a few and thereby preventing some sections of the community from enjoying the benefits of co-operation. With the adoption of the limited liability principle, co-operation is sure to be a movement for a chosen few, shifting emphasis from character to credit-worthiness. Even the purpose of the loan and its proper utilization need no longer be the concern of the societies. Nor need the members of a village society possess mutual knowledge of each other's affairs and exercise some sort of control over their fellow-members in matters of their borrowing or punctual repayment of loans. It is needless to say even the advocates of limited liability do not contemplate to bring about such a state of things in the affairs of the village societies. While unlimited liability compels the members to practise virtues which should be the realities of village life to-day, the limited liability will destroy all that is best in our village life.

Representation of individuals in Central Banks.

On the question of representation of individuals on the directorate of the provincial and central banks I dissent from the view expressed in the report. I shall not be divulging any secret if I state that representation for individuals in the Provincial Bank was at first agreed to but was later revised. Not having been connected in any capacity either with the provincial or the central banks, I am one of the few on the Committee who could examine the question with a detached mind. The vehemence with which the proposition was sponsored was worthy of a better cause. After all the representation required is comparatively insignificant as the individual representatives will be very few. Why their presence is so much dreaded, it is not understood. Is not their presence a necessary and healthy check when often enthusiasm outruns discretion? To have a point of view before the management different from that presented by the representatives of borrowers is a great advantage. Apart from the ripe experience which these representatives possess, their presence infuses confidence in the investing public. Moreover, these individual shareholders are often depositors and on their deposits the banks, especially the central banks, have to depend to meet their obligations during the off-season when collections from societies are negligible. To deprive these individual shareholders of their representation, to my mind, appears like one cutting the nose to spite the face. If as the Committee suggest a forward policy is to be followed in regard to expansion of the movement on right lines, it needs the goodwill and support of all interests. Moreover,

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the representation proposed still provides preponderating voice to the representatives of societies in the management of the banks. As long as the societies continue to possess a preponderating voice in the management and their interests are in no way jeopardized by the inclusion of representatives of individual shareholders, there is no point in penalizing individual shareholders. Their presence, on the other hand, lends moral and material support to the movement.

I would also suggest that if the representation of the individual shareholders is to be effective, however comparatively insignificant their representation may be, they should be elected from among themselves by themselves. The suggestion that the representatives of societies should also take part in the election of individual shareholders renders such representation useless especially as in the case of the Madras Provincial Co-operative Bank each representative of the central banks is allowed to poll as many votes as the number of shares held by the central banks. This provision also is unco-operative as it violates the principle " One man one vote."

In backward areas where the central banks have to depend a great deal on deposits from the outside public it is feared that the banks would suffer considerably if representation to individual shareholders is withdrawn. It is far better to provide for their representation and ensure flow of deposits, thereby enable the central banks to become self-sufficient, instead of making them depend on the apex bank for financial accommodation. To maintain the interest of the general public in the working of the central banks by providing for their intelligent co-operation is in the interests of the central banks themselves. It may also be stated that since the movement started, the individual shareholders have played a great part in building it up and it cannot be denied the present sound position of the financial structure and its continued stability are largely due to them. It would be sheer ingratitude now to deprive ourselves of their services just at the time when we are planning for a forward drive.

Considered from all points of view the presence of representatives of individual shareholders and even of depositors is in the best interests of the movement.

Land Mortgage Banks in dry areas.

While I am grateful to the Committee for their generous recommendations in respect of land mortgage banks in dry areas, I feel it is necessary to supplement their observations in order to show their recommendations are eminently reasonable and deserve the favourable consideration of Government. Though the average debt per acre in the Ceded districts is comparatively low, being only Rs. 23, even this debt is felt as an unbearable burden owing to the recurrence of unfavourable seasons. Owing to the

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frequency of drought, there has been a decided tendency for land passing into the hands of a few and the number of landless labourers is on the increase. Any slight disturbance in the agricultural economy of the districts caused by failure of rains aggravates this tendency and the helplessness of the landless and the small pattadars is considerably accentuated. But it is the part of wisdom for any Government to make a careful study of the situation and undertake ameliorative measures. Owing to continued neglect a stage has been reached when even the substantial provision of irrigational facilities may not be availed of as owing to their extremely poor condition the ordinary ryot is not in a position to provide himself with necessary funds to carry on cultivation. The problem of rehabilitating the ryots who have lost their lands demands very radical measures whose adoption may necessitate legislation of a kind which may be dubbed as socialistic. Whatever may be the category under which such legislation may come, sooner or later it will have to be undertaken and the State will be required to shoulder the responsibilities which such measures may create. But the question of relief of indebtedness of those ryots, especially small pattadars with economic holdings, needs immediate attention lest they too may soon become landless labourers. The loans granted under the Agriculturists' Loans Act are not easily procured owing to the rigorous conditions governing them. Moreover, they cannot afford adequate relief owing to the limits imposed. Land mortgage banks, based as they are on co-operative principles of mutual knowledge and mutual trust, are better fitted for the grant of long-term loans required for the redemption of indebtedness and for land improvements. As the Committee mention there are difficulties for annual recovery and the instalments have to be regulated with reference to seasons. One method suggested as to extend the period of repayment to 25 or 30 years, reserving five or ten of those years for purposes of extension in case of scarcity. This may necessitate the Central Land Mortgage Bank raising capital for 30 or 40 years. I do not see any reason why this should not be possible. To treat a borrower who cannot repay a loan within 20 years as an insolvent for all practical purposes when such failure to repay is due to circumstances beyond his control, is to ' damn ' him unnecessarily in the eyes of the public. The arguments against the extension of the period of loans beyond 20 years mentioned in paragraph 104 of the report cannot be applied to dry areas which are subject to unfavourable seasons. So to help these dry areas, it is necessary to raise capital at least for 30 years. It is seen that many of the Committee which went into this question have suggested that it should be possible to extend the period at least to 25 or 30 years.

Even if such an extension of period is acceded to, it is feared that it may not be possible for the Central Land Mortgage Bank to raise the necessary funds and that a higher rate of interest may

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have to be paid which would naturally increase the burden of the ryots. As long as the Government guarantee is assured, there may not be any difficulty in raising long-term capital. But it is argued that owing to frequency of unfavourable seasons even extension of period may not be of much avail and defaults will continue to be frequent. While the financing bank will have to meet its liabilities, the re-payments will be in arrears. To get over this difficulty and ensure repayments, the Committee have recommended the use of the Famine Relief Fund to provide temporary accommodation. The Committee adopted the following resolution :—

> " In view of the fact that in areas dependent exclusively on rain, repayments cannot be made regularly every year, special arrangements should be made in respect of the financing of areas by the land mortgage banks by Government offering to the Central Land Mortgage Bank temporary accommodation either from the general revenues or from the Famine Relief Fund until Government is able to reimburse itself from its periodical collections so as to enable the bank to meet interest liabilities to debenture-holders to the extent of its investments in such areas during periods of distress arising from drought, floods or cyclone."

Those who are not conversant with the objects of the Famine Relief Fund and whether it could be used for the purpose indicated, would be interested to know its history :—

> *Famine Relief Fund.*—The establishment and maintenance of a Famine Relief Fund by an annual assignment from the Provincial Revenues of Rs. 6·61 lakhs, subsequently reduced to 3 lakhs from 1928–29, was provided for under Devolution Rules framed under the Government of India Act, 1919, which came into force from 1st April 1921. This annual assignment could be used only on the relief of famine in the year concerned, the unspent balance, if any, being transferred to the fund at the end of the year. When the accumulated total of the fund was not less than Rs. 40 lakhs, the annual assignment was optional. While the balance in the fund was at all times available for expenditure upon the relief of famine, only the excess over Rs. 40 lakhs, if any, could be utilized for prevention or mitigation of famine, for granting loans to agriculturists or for writing off irrecoverable balances of such loans.

Though the Government of India Act, 1935, did not provide for the continuance of the Famine Relief Fund, the Madras Government wisely decided to maintain the statutory fund on the old lines and by the Madras Famine Relief Fund Act (Act XVI of 1936) provided for the establishment and maintenance of the

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Madras Famine Relief Fund. The main provisions of the Act are—

(1) *Assets of the fund.*—They are—

(i) The securities of the Government of India purchased from the balance at the credit of the old fund when it was wound up;

(ii) contributions from the revenues of the province; and

(iii) interest accruing from time to time on the securities of the Government of India in which all sums to the credit of the fund not immediately required for expenditure have to be invested.

(2) *Purposes for which the fund may be utilized.*—They are—

(i) the relief of serious famine;

(ii) the relief of distress caused by serious drought, flood or other natural calamities; and

(iii) when the fund exceeds Rs. 40 lakhs, the excess may be utilized to meet expenditure on protective irrigation works and other works for the prevention of famine.

(3) *Contribution to the fund from revenue.*—The accounts of the fund have to be made up as on 31st March of each year, the securities belonging to it being valued at their market value on that day. Should the valuation in any year show that the balance in the fund fell short of Rs. 60 lakhs on that day, contributions from Provincial revenues have to be made up to make up the deficiency. If the deficiency exceeds Rs. 5 lakhs, it may be made up in annual instalments, each of such instalments except the last being not less than Rs. 5 lakhs. Contributions may also be made otherwise, e.g., by crediting the fund with the sale-proceeds of famine tools and surplus materials remaining unutilized after a famine, etc.

The balance to the credit of the Famine Relief Fund on the 31st of March 1939, was expected to be Rs. 45·57 lakhs and in the budget for 1939–40 a minimum contribution of Rs. 5 lakhs to the fund as required by the Madras Famine Relief Fund Act has been provided.

Thus it will be seen from the above that the Famine Relief Fund can be utilized for the relief of distress caused by serious drought, flood or other natural calamities such as cyclones, fires, epidemics and earthquakes. The excess over Rs. 40 lakhs was before 1936 Act could be utilized for grant of loans for relief of distress or for writing off irrecoverable balances of such loans. So under the existing Madras Act, if the local Government so desire, they can use the excess over the statutory minimum fixed,

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for the purpose indicated in the resolution proposed. If there is any legal impediment for fulfilling this purpose, the Government can easily amend the Act.

As the fund will be availed of only if and when absolutely necessary, and as already the State has accepted similar responsibility in regard to loans granted under their Acts, it is not too much to ask the Government to come to the assistance of the ryots and thereby safeguard their interests in land.

Separate Apex Banks for Telugu and Tamil districts.

Another subject in regard to which I dissent from the majority view is in respect of creation of separate apex banks for the Telugu and Tamil districts. It was made clear during the discussion on this topic that the sponsors of the proposition based their plea for the creation of separate apex banks on considerations similar to those urged for the creation of provinces on linguistic basis. As the Committee refuses to discuss the bigger issues involved in the proposition, I shall refrain from referring to them. But one of the grounds urged by the mover and his supporters is that the ideals and the idealogies of the north differ from those of the south. While the nature and kind of co-operative institutions started in particular areas may depend on the peculiar circumstances of each tract, I am surprised to learn even the idealogies differ. I have been under the impression and my study of the movement here and elsewhere strengthens it that co-operative ideals and idealogies are the same all over the world and such differences in the kind of institutions started are due to the varying economic conditions. That such an argument should have been adduced by co-operators will surprise every one. Then it is stated that the agricultural and economic conditions also vary in different parts of the province. No one can question this statement. But how does the creation of two separate apex banks meet the needs of the situation? Even in the proposed divisions of province, do not the agricultural and economic conditions differ? It is contended that there should be separate regional banks to serve different areas which possess peculiarities of their own. At that rate is it not realized that perhaps we will have to create as many apex banks as there are districts? In fact even in the same district conditions vary much and it will not be argued that we should have as many apex banks or at least central banks as there are areas with differing agricultural and economic conditions. If as the Committee have wisely decided that the principle of one central bank for one revenue district is considered sound and should be adhered to, should not similar considerations prevail in regard to one apex bank for the whole province? The existence of one apex bank has not resulted in the adoption of rigid uniformity in co-operative theory and practice. Nor has it checked the free and natural growth of the movement. Such uniformity, if it exists at all, is mainly due to similar agricultural and economic conditions. Moreover, it is the

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central banks that are responsible for the adoption of a particular policy and it must be said to their credit that they have tried to adjust their policy to suit the differing conditions in their districts. It would be also doing injustice to the Madras Provincial Co-operative Bank if it is complained that opportunities for experimentation in the co-operative field have at any time been denied. In the descriptive part of the report in paragraph 36, the relationship existing between the apex bank and the central banks has been fully described :—

> " The position of the co-operative central financing structure in the province at present is that of a loose federal type of banking organization; the Provincial Bank and the central manks are independent banking units but are loosely knit together by ties of financial relations. Uniformity of credit and borrowing policy is secured through the periodical central banks' conferences convened by the Provincial Bank. By virtue of its position the Provincial Bank has secured the direction of co-operative finance in the province with the support of central banks."

If things are as they are stated, how does the creation of separate apex banks improve the financial structure? On the other hand the proposed bifurcation may impair its stability. Though the majority of the Committee dismiss the apprehension that the existence of two Provincial Banks may lead to conflict of interests in the money market and that their development may be jeopardized, it cannot be denied that the apprehension is well-founded. Specially in the matter of deposits loyalties would become divided and the money that is now easily found for the progress of the movement would naturally be divided and thereby impair the financial stability. Is it not a fact that when the Madras Provincial Co-operative Bank wanted to float debentures in the market to obtain long-term capital, the Central Land Mortgage Bank apprehended conflict of interests in the money market and objected to the floatation of such debentures? Moreover, the financial structure should be one and indivisible and then only it will possess the necessary strength. From the administrative point of view too, one apex bank for one purpose is very desirable.

To my mind the proposal emanated and was agreed to readily because of the advantages which such a separation would confer in the matter of elections and influence in the bifurcated banks. While in a united bank the interests of backward areas may receive consideration and possibly active support for the promotion of measures calculated to improve their economic condition in view of the large resources available, such measures may not be possible with the limited resources in the bifurcated banks even if such banks are willing to undertake them. There is a well-founded fear based on past experience that in the apex bank

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formed for the Telugu area, the interests of the Rayalaseema will suffer especially as they will possess inadequate representation and will continue to be for ever a hopeless minority. In a united bank such as it is now to-day, it is possible to secure the strength, sympathy and support of representatives from outside the Telugu area. On this and other grounds such as those urged against the inclusion of the Rayalaseema in any linguistic province, it is seriously urged that the Rayalaseema should enjoy the privilege of seeking affiliation to any of the bifurcated banks if bifurcation is effected in spite of the overwhelming reasons against such a step.

Responsibility of Auditors.

The majority of the Committee have suggested addition of a sub-section to section 49 of the Act whereby if loss or damage is caused to a society through the gross negligence, wilful default or breach of trust of a person authorized to audit the accounts of a registered society under sub-section (1) of section 37, the Registrar may make an order requiring him to make good the loss or damage suffered by the society.

Under section 37 of the Act the responsibility for audit rests with the Registrar and the staff employed by him for the purpose is under his control. The Registrar also acts on behalf of the Government. If on account of negligence or irregularities of their staff loss is sustained it is the responsibility of the Government to make good the loss. To hold the poorly paid staff of auditors responsible for negligence, etc., and empower the Registrar to make an order requiring the auditors to make good the loss or damage suffered by the society is to take away the responsibility of Government for such loss. It is not for the Committee to suggest what the Government or the Registrar should do in dealing with the staff for dereliction of their duties. All we are concerned is that as long as the Government audit is the rule they should be held responsible for any loss or damage sustained even though it be such loss or damage is due to the negligence of their staff. The Government or the Registrar may adopt any measures they like to recoup the loss which they make up. I feel it is beside our province to fix the liability on the auditors. When the Government are made responsible, they will take good care to see that their responsibilities are fulfilled. Moreover, if loss or damage is caused to the society in the manner suggested in the proposed sub-section (2) the auditors are subject to disciplinary action. If it is due to breach of trust they are liable to prosecution under ordinary law. Therefore, I feel the Committee ought to have fixed the responsibility on Government instead of on the poorly paid audit staff, who like all other Government servants are equally liable for punishment for negligence, etc. Such fixation of responsibility on the Government is absolutely necessary as a tendency is noticed in Provincial Governments disclaiming

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all legal or moral responsibility when things go wrong. Moreover, the adoption of the suggestion made by the Committee is sure to impair the confidence of the public in Government audit.

Supervising Unions.

In paragraph 368 of the report the Committee leave the decision on the question of retention or abolition of local supervising unions in the future to the discretion of central banks concerned. This decision was arrived at owing to the different views on the utility of unions. A reference to the history of the supervising unions will show that these unions were brought into existence because the Government decided to withdraw supervision of societies by their Inspectors and confine their work to audit only. The central banks found it impossible to supervise satisfactorily the numerous societies scattered over a large area of their operations. The existence of unions was also considered as the recognition of the principle of co-operation that as in primary societies the member societies should exercise supervision over one another. As the Townsend Committee observe the unions formed and controlled by the societies themselves provide the ideal organization for supervision. Above all these unions, as stated by the Conference of the Registrars of Co-operative Societies are " one of the most promising ways to increase co-operative knowledge among members of the societies and to give the leading members of the societies a wider outlook." If these are the purposes which the unions are meant to serve, it is a pity their abolition is urged by some co-operators. It may be the unions have not been discharging their duties satisfactorily and that they have become practically useless intermediaries. Now that finance and supervision are combined and are vested in the central banks the success or the failure of the working of these unions will be entirely due to the central banks. If the central banks evince real interest in their working, they can make them useful bodies as they form a valuable link between them and the borrowing societies. As the unions have to develope and supervise affiliated societies, scrutinize loan applications and carry on educative propaganda, they occupy an important place in the movement. If a central bank decides to abolish the unions, not only it will have to undertake direct supervision but also will have to deprive itself of the valuable service of co-operators who with all their faults, now act as immediate authorities to control, guide and supervise the working of societies. While it may be good to centralize responsibility for finance, it is desirable and necessary to decentralize supervision. After all, is not the existence of unions more a help than a hindrance? Can they not be made better instruments for supervision by removing such defects as may be found in their present working? Is it not possible to reform them by the central banks on whom they depend for such financial assistance as they need to carry out their functions? Is it wise for the central banks to do away with an agency whose potentialities are great and whose

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help in regard to supervision is real? Are not the supervising unions a source of strength to the movement, promoting, as they do mutual supervision, mutual knowledge and above all opportunities for associated action? So I feel the Committee ought to have expressed its definite opinion in favour of the supervising unions without leaving the decision to the central banks. Introduction of limited liability, extensive jurisdiction to societies, abolition of unions, these and other measures suggested in the report will strike at the foundation of the co-operative movement and in course of time the co-operative organizations will lose their distinctive character. They will cease to be the embodiments of the " spiritual principles " which have been the pride of the co-operative movement and on which the co-operators look forward to build their co-operative commonwealth.

Marketing Staff.

I am also not in favour of the proposal contained in paragraph 300 of the report which suggests the transfer of the marketing staff to the Co-operative Department. Unless we favour " compulsory co-operation " as suggested by Mr. K. Bashyam, it is difficult to envisage a time when every producer will be a member of a co-operative sale society and realize the benefits of co-operative marketing. Marketing is not a special feature of sale societies only. There will be a large number of producers outside the co-operative movement for whom the marketing facilities are equally important. A department which is not wedded to a particular form of marketing, however advantageous it may be, is best suited to undertake this work. Co-operative organizations may get certain facilities which may induce producers to join them. But to deprive producers who are not members of co-operative societies such assistance as the marketing staff can give is not in the best interests of agricultural economy. The Agricultural department, to my mind, is best suited to undertake marketing work. The Agricultural department has already made a study of the markets and has prepared valuable reports. The functions of the marketing staff narrated in sub-paragraph (2) of paragraph 299 can certainly be better performed by the Agricultural department. The Agricultural department assisting as it does in growing crops is certainly equally interested in marketing them. A change of the kind proposed is not in the interests of the producers whom any arrangement made is intended to benefit. When sale societies increase and co-operative marketing becomes a rule rather than an exception, transfer of the marketing staff may then be thought of. But that day is yet far off. At present closer co-operation between the departments of Agriculture and Co-operation is feasible and practicable if an attempt is made to co-ordinate their activities. For this purpose transfer of the marketing staff to the Co-operative Department is not necessary at all.

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Legislation.

A suggestion was conveyed to the Committee to add a section numbered as 12-A empowering the Registrar to insist upon a society to adopt certain by-laws meant for their better working. This did not secure the consent of the Committee. I feel the adoption of the suggestion is very desirable. The suggested amendment runs as follows :—

> " *Section* 12-*A*.—(1) Subject to the rules, if it appears to the Registrar that an amendment of the by-laws of a co-operative society is necessary or desirable in the interests of such society, he may, in the prescribed manner, call upon the society to make the amendment within such time as he may specify.
>
> (2) If the society fails to make the amendment within the time specified the Registrar may, after giving the society an opportunity of being heard, register such amendment and forward to the society in the prescribed manner a copy of the amendment together with a certificate signed by him which shall be conclusive evidence that the amendment has been registered, and such amendment shall thereupon be binding on the society and its members."

Sometime ago the Registrar suggested amendments to certain by-laws relating to the rates of interest charged. It is well known that many societies took their own time to give effect to these suggestions. In certain cases the Co-operative Inspectors had to go to the societies to get the by-laws amended. There have been also cases where the societies have amended the by-laws reducing the rate of interest charged to borrowers while the financing institutions did not reduce the rate on outstanding loans. The result has been the societies have suffered serious losses. So if the statutory obligation suggested by the amendment is imposed, the Registrar by notification can bring into effect useful amendments to by-laws all at once. It cannot be argued that the Registrar will suggest amendments calculated to impair the confidence of the public in the movement. Generally previous consultations with the financing institutions take place before any suggestion to amend the by-laws is seriously considered. In view of the difficulty experienced in getting the societies adopt amendments to by-laws even when they are approved and recommended for adoption by the financing banks, to invest the Registrar with this power is not after all dangerous. The anomalies of the kind I have pointed out will cease to exist.

There is another suggestion which also did not find acceptance. It was proposed to add a section to section 43 and number it as 43-B, empowering the Registrar to remove one or a few of the undesirable persons from the committee of management. It is a matter of common knowledge that one or a few undesirable persons

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manage to get into the management and cause no end of trouble. At present the only course left open to the Registrar is to supersede the entire committee. It is not fair to supersede the entire body for the sake of getting rid of one or a few undesirable persons. As the power will be exercised by the Registrar only after consulting the bank financing the society and after giving an opportunity to the member or members concerned, there is no harm in vesting this power in the Registrar. It is understood similar powers exist in other Provincial Acts or in the rules framed under them. Recently the Government of Mysore has also made a rule giving such a power to the Registrar. The proposed amendment runs as follows :—

" *Section* 43-*B*.—(1) Notwithstanding anything contained in the other sections of the Act, the Registrar may, for reasons to be recorded in writing, remove any of the members of the Committee, whose continuance is, in his opinion, detrimental to the proper working of the society and appoint one or more members, as the case may be, in the place of the member or members so removed :

Provided that before making such order, the Registrar shall, except when in his opinion there is an emergency, consult the bank, if any, financing the society and give an opportunity to the member or members concerned, to show cause why such order should not be made.

(2) The member or members appointed under sub-section (1) shall hold office so long only as the member or members, in whose place he is or they are appointed would have held office, if the vacancy or vacancies had not occurred."

R. SURYANARAYANA RAO.

NOTE —Subsequent to the sending of the note of Sri R. Suryanarayana Rao to the Government Press, Mr. Abdur Rahman Khan writes subscribing to the views contained in that note in respect of 'land mortgage banks in dry areas', 'Representation of individuals in central banks' and 'Separate Apex Banks for Telugu and Tamil districts.'

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I therefore believe that a new basis should be given to the movement to achieve the end in view of us all, i.e., the intensive and the extensive expansion of the movement until co-operation becomes the life force in the rural economy of India that it ought to have been long ago. To identify co-operation with the supply of cheap credit to the rural worker is to misunderstand its function altogether; it must become the moral background of vital importance for the healthy progress of the society in general. Unless co-operation becomes the dominant and revitalizing force in village life, the conditions in the country may deteriorate beyond repair. The Committee has recommended a five, seven or ten year plan for this work of expansion and has recommended certain measures of propaganda and persuasion to induce the villagers to come into the movement. But I feel certain that, while such propaganda and plan may have *some* effect, it cannot bring all the villagers into the movement or make the co-operative movement the life blood of the villagers either within the time planned or even longer. In my view the Committee would fail of its purpose and its labours would be in vain if a drastic and speedy remedy is not indicated by the Committee for the full progress of the movement within the shortest time possible. I may be accused of impatience; God knows, we have waited long enough. The position of the agriculturist is growing worse from day to day and unless it is at once tackled, catastrophic and dangerous consequences will follow.

The urgent need of the hour therefore is the placing of co-operation in its proper setting, i.e., as the solvent of the many urgent economic ills of the villager. " This is the one supreme task of immense, present, and far greater prospective importance, in the national economy of a country whose future prosperity depends mainly upon the organization of the overwhelming majority of the population engaged in the production of food and raw materials."

To make the co-operative movement a success there are only two ways : one, to make the society an attractive and advantageous business so that every resident of the village will voluntarily become a member of the society; the other is to devise measures and produce conditions so that the villager has no other resource but to join the co-operative society. Work on both the lines is necessary. While the society can be made to subserve not merely credit needs of villagers but all his other requirements, I plead that the society must be made the sole resource for the villager to draw upon for satisfying his ordinary and extraordinary needs. This has been dubbed as " *compulsory co-operation* " and condemned as being against the essential principle of co-operation which is defined as the free association of individuals for the good of its members on the basis of " each for all, all for each " (see paragraph 158 of the report). This is misunderstanding my view; for, I do not advocate that failure to join a society or even the

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refusal to do so should be made an offence and that the recalcitrant member should be punished by fine or imprisonment. What is required is that the *ryot should be prohibited from borrowing except from a co-operative society and no mortgage of agricultural land should be recognized as valid unless made to or through an agricultural co-operative society.*

The majority of the Committee would rather adopt what is called " voluntary compulsion " under which while a person is free to join the society or not, however, when once he joins it, he is bound by all its rules and on breach of any one of them, he is liable to be expelled. (See paragraph 172 of the report.) This is no new principle and is applicable to all associations, co-operative and other. Even on this basis the Committee has not accepted the recommendation that a member joining the society should be interdicted by statute or by the by-laws of the society, from having dealings with any institution but the co-operative society of which he is member for his credit needs, long or short (see paragraph 171 of the report).

The idea of the application of " compulsion " for the common good or in times of distress or at a crisis is not new or original. The principle of compulsion has been accepted by co-operators as applicable at least to cases of co-operative societies dealing in utility services. At the thirteenth conference of the Registrars of Co-operative Societies held in December 1939 at Delhi a resolution has been adopted to the effect " that a person should not be compelled to join a co-operative society; nor should the decision of such a society be binding on non-members *except in cases involving the provision of some utility services*, which at least two-thirds majority of those considered desirable. In fact, many of the recommendations made, such as, the formation of better farming societies, maramath societies or irrigation societies or societies for consolidation of holdings will be impossible of achievement unless the principle of compulsion is applied. Even in the case of loan and sale societies which are now being organized in various parts of the Province, it will be a great source of strength to them if by some means all producers in a certain village are made to join the society, for then, it will be easy to control the prices and secure to the producer an economic price for the commodity produced by him.

Sri Kala Venkata Rao, one of our members, draws a vivid picture of the present situation in these words :—

> " The attempt of our Committee should not be simple repair. Our Province was overtaken by the economic depression when the credit side of the movement was at its peak and in the words of Mr. F. L. Brayne, ' The crash came; prices dropped to half in the night; debts doubled; credit went, crops were unsaleable and except for a box of trinkets the villager had little except debts.' We now find that even these trinkets formed part of the distress gold that

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found a way out of the country in the past few years. For one thing, this overnight catastrophe has awakened a sense of reality in our generation. This sense of reality should create common sense in us and we will be utterly failing in our duty if we do not deal with the problem as a whole and not in compartments. 'Socialism,' 'Communism,' 'Anarchism' and 'Capitalism' are the patent medicines prescribed by the eminent but differing doctors for the eradication of the evil thereof, but I am of opinion that 'Co-operation' alone is the panacea that can not only eradicate the evil but also can revitalize humanity that is crying for help in despair."

On principle I do not see why 'Compulsion' should not be resorted to for the ultimate common good of the community; I plead therefore that compulsion should be adopted at least as a temporary measure in the matter of expansion of co-operative movement and for a definite period.

In the course of the discussion, I find that Mr. T. A. Ramalingam Chetfiyar has referred to this matter, where he is reported in the *Hindu* to have said on 20th April 1939 :—

"If the credit movement was to succeed, and really help the ryots to improve their economic condition as a whole, they ought to do two things. The ryots must be prohibited from borrowing elsewhere than from co-operative societies and the sccieties must be able to advance monies to the ryots to meet all their needs. He believed that the present resources of the movement were sufficient to meet all their needs."

So also Dr. Pattabhi, on the 10th of May 1939, said "that he had no objection to that memorandum being taken and adopted as the basis for laying down general lines of reorganization, provided the Committee agreed to his proposal that agricultural land should be mortgaged only to co-operative societies. No agricultural land and its produce should be mortgaged to anyone except to a co-operative society."

As also Mr. Abdur Rahman Khan who said "that he was in favour of compulsion, if a society could be organized which could be able to meet all needs of the agriculturists."

Besides, I find that same view is advocated by Dr. A. J. Saunders, M.A., PH.D., Professor of Economics, American College, Madura : "It might be well to prohibit co-operative members from borrowing except through their credit society and then only for approved objects."

This view is shared by the Vachakarapatti Co-operative Society, Ramnad district, which says "as a rule, every member should borrow only from the co-operative society. No outside borrowing should be recognized while giving loans, care should be taken to see that he has got the repaying capacity," and also by the

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Maipad Co-operative Loan and Sale Society, Limited, Nellore district. For it says in its memorandum : " Legislation is also necessary prohibiting all other sorts of credit except through the co-operative societies to the agriculturists and labourers though not to all others in the Province. Private money-lending or lending through the commercial institutions of any magnitude to the agriculturists and industrial labourers should at least be prohibited. Adequate facilities and preference should be given to every co-operative enterprise such as production, marketing, etc., by amending the Acts, if necessary. If this aspect is not given due consideration, there can be no use in wasting money over strengthening the movement, which can only be experimenting for any length of time.

Dr. P. P. Kallukaran, M.A., B.SC., PH.D., Professor of Economics, Presidency College, Madras, gives the following suggestions : " So, as indicated above, no small changes in the constitution and working of the co-operative movement would meet the needs of the situation. A co-ordinated attack by the State, the co-operative agency and the local panchayats has to be made on the problems. Piecemeal legislation and temporary remedies would only be mere palliatives. The time now is very opportune for an attempt of the kind being made. The Debt Relief Act has discouraged unorganized banking in the villages. The Agricultural Credit Department of the Reserve Bank is examining the problem of rural finance with sympathy. The villages are now receptive of new ideas. So if a well-thought out comprehensive attack is made, considerable success can be achieved."

Sri Rao Bahadur R. V. Ramasundaram Pillai, President, Srivilliputtur Co-operative Banking Union, Limited, has some pertinent observations to make on the point :—

> " I think that some amount of compulsion is necessary if a majority of rural agricultural population is to benefit by co-operative movement, and I also think that it is advisable that the present policy of decentralization of co-operative activities should be put an end to. . . It must be compelled by law that all deposits of less than Rs. 5,000 of persons residing in the bank's jurisdiction must be invested in co-operative banks under Government guarantee, if necessary. Every agriculturist must be compelled by legislation to become a member of the society (there would be no such compulsion in urban areas). The agriculturist must borrow his requirements only through the society and must invest his surplus only in the society, financial dealings with any other body being declared illegal by an enactment."

These show the trend of opinion in co-operative circles and the idea of compulsion, if it had been placed before the country in the form of a separate questionnaire, will, I feel sure, show a greater volume of opinion in its favour.

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After all, co-operative credit is a sort of controlled credit and recommendations have already been made for the controlling of credit to the villager by providing for the initial examination of the purpose of the loan and the supervision of the application from stage to stage to proper and approved purposes of the credit advanced. This is on the basis that the agriculturist cannot be trusted with cash for he cannot get his money's worth and he is likely to spend it extravagantly. The Reserve Bank has therefore advocated that the credit should be advanced as far as possible only in kind and collected in kind.

If by such means the co-operative society constitutes itself a " Court of Wards " for each individual ryot, ascertaining his needs and expenses from time to time, advancing the necessary monies for meeting them and recouping itself out of his produce by controlling the expenses, I do not see how measures taken for the purpose of compelling all and every one of the ryots of the village to join the movement, can be said to be revolutionary. In olden days, when village autonomy was functioning fully, every resident of the village had to subordinate his personal interests and desires to the common good and any transgression of a rule made for general welfare was visited with social ostracism. It is arguable that a kind of economic ostracism which I advocate, i.e., sterilization of credit to persons who are recalcitrant and do not join the movement is not inconsistent with the generally accepted ideas of the people.

The economic advantages resulting from such a measure are obvious, and in fact, accepted by all members of the Committee. I shall also quote the words of Dr. Kylash Nath Katju, M.A., LL.D., from his valuable notes on multi-purpose co-operative societies :—

> " The constitution of this multi-purpose society should be based on each family in the village as a unit. In my opinion, the family even now is broadly considered to be a unit in the life of a village community. The villager goes by houses. If you ask him as to the population of a village, more often than not he will not give you the number of people residing in the villages; he will say, ' We have so many houses 100 or 150 '; in other words, they have so many families in the village. For the constitution of our society, we should therefore treat each house or family as a unit, and each house should send one representative, or at best two if the family is a very large one, to the society. This representative will normally be the head of the family, but in rare cases, where the father of the family has become too old, he may be the younger brother or a son. Any way, the family itself will be associated directly with the society. With a maximum limit of about 200 or 250 houses or families in a village we may have a society (by ' Society ' I always mean a multi-purpose co-operative society) consisting of about an

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equal number of members and I think there should be no difficulty in such a body being quite business-like in its methods.

"It will now easily be realized that this society, if it functions well, should prove an efficient and perfectly practical form of a local self-governing body, and it will have the great merit of carrying with it the help and co-operation of every resident in the village.

"The question may arise: how are these societies to be formed and when should they begin to function? *It may be said that if we wait for all the families in the village to become members of such a society on a voluntary basis we may have to wait either too long or such societies may in many cases never materialize*, and we cannot afford to wait for an indefinite period. I think this difficulty can be solved by a simple and easy method. There is nothing to prevent any number of villagers forming themselves into a society of this kind. They may be a minority of the village community but if we find that representatives of a majority of the families resident in a village have formed themselves into such a society, then we may have *legislation to ensure that the decisions of such a society will be binding on non-members also*. What this majority should be is a matter of detail; it may be two-thirds of all the families residing in the village or even 60 per cent."

One more point I must deal with, that is, that the co-operative societies will not be able to cope with the demands of the Agriculturists for his agricultural and all his other requirements. This overlooks the fact that under the scheme I have in view the co-operative society will not only command the saving of agriculturists but also will have the control and management of all the agriculturists' wealth produced by them, which is not inconsiderable.

The present position is that the richer class does not care for co-operative societies, for their credit is safe and they can raise all money for their requirements from elsewhere. The upper middle class does not find it profitable to mix itself up with the lower middle class of the class below it. A co-operative society composed mostly of the lower middle class generally on the verge of bankruptcy and the lowest middle class which does not command any credit cannot, by forming themselves into a co-operative society, do much to help themselves or others. Only under coercive circumstances will the richer classes and the persons commanding credit come into the movement and lend their credit to their poor brethren. There is no doubt that their presence is essential not only for the purposes of credit but also for giving stability to the society and to ensure proper lending and timely recovery. A society consisting merely of borrowers will not work and the turnover by such a

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society will be poor and unsatisfactory. Some drastic measure of the kind suggested, i.e., the sterilization of the credit of an agriculturist, rich or poor outside the co-operative movement and the prohibition of mortgages of agriculturists' land to other than co-operative societies or without their consent is absolutely necessary. A start has already been made in this direction in Bombay. The Bombay Agricultural Debtors Relief Act provides that the Debt Adjustment Board cannot make an award unless the debtor is or becomes a member of a resource society approved by Government. If the debtor is not a member, the Board may require him to become one within the time prescribed. If he defaults, the Board is required to dismiss the Debtor's application for adjustment of his debts. Further, by section 59, it is provided that no alienation by debtor of his property shall be valid until the amount of the award is fully paid by him. There is also a prohibition against selling his standing crops without the permission of the society; such alienation is declared to be void. These provisions in effect mean the control of all activities of the debtor in realization to his credit needs and is probably designed to ensure the sterilization of all private credit which competes with constitutional credit.

The majority of the Committee does not see wisdom in this measure and would rather rely on " the corrective influence of education, the spread of which, however slow, may offer a lasting remedy." My point is that the course indicated by me is a part of that education in the same way as compulsory primary education is and must be undertaken at once, even at the sacrifice of some supposed co-operative principle.

I expect far-reaching advantages by the early adoption of " compulsion." By confining the agriculturists to dealing with the co-operative societies, we shall at one stroke eliminate the money-lender from the village economy and also restrict the activities and operations of the joint stock and the commercial banks to purely trade and commerce. As in the ultimate analysis, these credit agencies depend largely, if not entirely, on the wealth produced by agriculturists for manipulation in the market for earning profits, it will be found that in a short time the co-operative society will be the dominating factor in the finances of the country and the policy dictated by its needs and operations will decide the policy of the Government in financial matters and circumscribe the sphere of operations of the commercial banks. Time is not far distant, in such a contingency, when the Provincial Co-operative Bank will take the place of State Bank or State-aided banks and a Federated Central Co-operative Bank will command large influence with the Government of India in financial matters. This is my dream and I pray it may soon come true.

In the organization I have in view, the landless agricultural labourer has also his place. Labour is an asset and must be organized and may be made to fit into this co-operative movement. The linking of the labourer of the land to the capital of the richer

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classes is very important. This alone can save the movement from being a failure and the ryots from utter ruin.

* * * *

In conclusion, my considered view is that one multiple co-operative society should be created for every group of villages with membership forced by law on every managing member of the family who shall invest all his savings and surpluses in kind, coin or labour in the co-operative movement and draw all his needs from it. The society shall thus have absolute control over the full life of all the agriculturists of the village. This, combined with the village panchayats proposed to be re-organized with enlarged powers and resources, will bring into existence two agencies, one managing the affairs of the village, administrative and judicial, the other supplementing its labours in the commercial and economic field.

Compelling creditors to notify debts.

I do not agree with the recommendation made in paragraph 82 of the report which asks the Government to consider the advisability of providing that whenever an application is made by the debtor or creditor under the Madras Agriculturists' Debt Relief Act, all creditors should on receipt of a notice disclose all the debts due to them within a prescribed time and that claims not so presented should be deemed to have been extinguished. Such a drastic provision is liable to abuse. Service of notice has been often found to be inadequate and the question of proper service will assume very great importance under the rule as proposed. A provision that the payment to the defaulting creditor will be postponed till after the payment of the other creditors is adequate.

Change of Registration Law to affect priorities in favour of land mortgage bank

I am also unable to subscribe fully to the recommendation in paragraph 122 " that legislative provision should be made so as to make all alienations of land to take effect so far as priority is concerned, only from the date of registration, at least in the case of mortgages in favour of the land mortgage banks, if a general provision of this kind is not immediately possible." This is supported on the basis that though an encumbrance certificate is insisted on, for four months from the date of execution of the mortgage bond in favour of the land mortgage bank, it does not afford adequate protection to it as loans are disbursed even before the certificate is obtained and it will be a hardship if the disbursement of the loan is held up for four months from the date of execution of the mortgage bond by the applicant. This is to provide for cases of fraud on the part of a member of a society who may antedate a mortgage in favour of a stranger and secure him a priority over the bank though the transaction with the stranger may in fact be subsequent. Apart from the question that such fraudulent conduct is not easy to commit without the knowledge of the villagers, I fear it is too much to ask for protection against all kinds of

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fraud. Such cases are found to be but few and I do not think that it is necessary for upsetting the general law on that account. Ordinary joint stock banks are doing business under the present law and they have not found any difficulties.

Abolition of Central banks and formation of branches of Provincial Bank.

When considering the constitution of the central banks, I moved the following resolution :—

> "In view of a body of opinion favouring the amalgamation of the district central banks with the Provincial Bank and branches of the Provincial Bank should be established wherever necessary for financing the local organizations, the Committee resolves that an experiment on the above lines may be conducted in selected area or areas and the result noted for future action."

The Committee has refused to accept it on the main ground that the central banks are doing well and it is better "to leave well alone." See paragraph 242 of the Report. This attitude is hardly justifiable in a committee entrusted with the task of suggesting ways and means of improving the present working of societies. It is arguable that the considerations set out in the said paragraph for and against the scheme are equally balanced and when a step forward is suggested, an opportunity should have been taken for experiment and ascertainment of results for future action. On an analysis of the evidence recorded at pages 315 to 328, I find nearly 45 per cent are in favour of the scheme. The exact figure is 36 for and 45 against.

I therefore think the Committee was not right in refusing to recommend the experiment especially as the system has been working for some years in some parts of the Bombay Presidency satisfactorily. Considered solely from the point of view of the ultimate borrower, the scheme is bound to be to his advantage. I quote the following from the article which I contributed to the *Madras Journal of Co-operation* on the subject :—

> "The federal structure of co-operation involves the combination of a number of hierarchial units which for their existence have to find necessary funds which ultimately come out of the pockets of the poor ryots. It is indeed a tragic thing to contemplate that while the banks can get money somewhere near 3 per cent, when it however reaches the poor ryot at the bottom, he has to pay as much as 7½ per cent on the loans borrowed by him. It is hardly necessary to point out that agriculture is not a business proposition; it is not a paying concern and does not repay even the labour put into it by the peasant. It is conducted more as a business for a living and that too, living on starvation basis. To expect him to pay interest at 7½ per cent is beyond his paying capacity and it is therefore no wonder

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day after day and year after year his condition is getting worse and worse and he is immersed in debts more and more deeply.

" It is no doubt a fact that on account of the existence of a number of societies between the Provincial Bank which lends out money and the actual borrower who is a cultivator of the soil, the rate of interest at which it is lent to him is much higher than if the transactions were had direct between the Provincial Bank and the actual cultivator himself. It may be pointed out that in its inception, the Madras Central Bank as it then was, was dealing with primary societies directly and it is only later that the hierarchy of co-operative banks was established.

" On this question, two opinions are possible. The first one is that all central co-operative banks should be abolished and the Provincial Bank must establish branches in the various places where the central banks are now situate and deal directly with the primary societies. This procedure has the merit in it of eliminating the middlemen banks and giving cheaper monies for the primary societies. The work also is likely to be more efficient, as the Provincial Bank with its vast resources will be able to incur the necessary expenditure for the supervision of those various primary societies in an efficient manner. It is open under this system for the Provincial Bank to appoint a supervisor on a fairly well-paid salary with proper qualifications for supervision of a number of primary societies in co-operation with the department. The business is not difficult to manage, as we find the Imperial Bank, the Indian Bank and other joint stock banks are now opening branches even in small taluk centres for transactions with merchants, traders and even cultivators. It may also be pointed out that the Central Land Mortgage Bank has transactions now direct with the primary societies and there is no interposition of a district land mortgage bank between the Provincial Bank and the primary societies. The alternative system that may be recommended is one that does not involve such drastic changes as noted above. Under this system the central banks will be reduced in number and no central bank will be established in any centre unless it is able to manage a working capital of at least Rs. 50 lakhs, and small central banks now existing will be amalgamated with the nearest central bank or a number of central banks may really be amalgamated and made into one big central bank. For instance, in East and West Godavari districts, the number of central banks now existing is five, and each is incurring charges and expenditure on its account, and it will be certainly much better if all these banks are amalgamated and one central bank is established somewhere in

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Ellore and the present central banks recognized as branches of that central bank; the overhead charges may be considerably lessened and the position of the central bank may be strengthened. Similarly the Srivilliputhur Bank which has only small transactions may well be amalgamated with the Madura-Ramnad Bank. The Banks in the Ceded districts may also be welded into one central bank called the Rayalaseema Central Bank. The idea is that there shall be as few central banks as necessary—in fact, not more than half a dozen for the Presidency."

Elimination of individual shareholders and Directors.

I also feel that the conclusion of the majority to eliminate individual shareholders from the constitution of central banks and as a matter of logic and consistency from the Provincial Co-operative Bank also is a step not calculated to advance the cause of co-operation. In the past, the individual shareholders had done yeomen service in the cause of co-operation and even now their presence on the management of the Banks is absolutely essential for infusing confidence in the minds of the public. I fear the majority has not fully realized the seriousness of the step taken by them.

I fully believe that the continued confidence in co-operative societies is the association with it of some prominent men of affairs in the management of the Bank. I think, I am right in stating that in a number of cases the presidents of the central banks have been chosen from among the individual shareholders. I know in the Provincial Bank the President has always been an individual shareholder. If the individual shareholders (in spite of the fact that they are a small minority) are able to furnish important office bearers for banks, it is due largely to the deep interest taken by the individual shareholders in the movement. It is not sufficiently realized that a co-operative bank composed solely of primary societies is nothing more than a bank in which borrowers alone are the members and its management is entrusted to a committee of borrowers only. This psychological factor cannot but affect the confidence of the public in the concern. The roll of the individual shareholders in the management is purely to act as a corrective to the tendencies of the borrowers to help themselves unduly at the expense of the investing public. They act as friendly critics and also as an advertising medium to the general public that things are going on all right in the bank. The individual shareholders are generally men of influence in the locality whose names are known to the people of the place, whereas the representatives of the primaries on the central banks coming from mufassal stations or village centres do not enjoy the same advantage. I think it will not be to the interest of the bank that the strength rendered to it by the presence of these people on the management should be done away with.

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It may further be pointed out that individual shareholders who are in a minority, if they have to influence the vote of the majority of the society representatives, have to depend on the intrinsic reasonableness of the views advocated by them and not on their own numbers. It is therefore not correct to state that their presence is not necessary. At any rate, their presence in the Board of Management has not done any harm to the Banks concerned and no reasons have been given to introduce a change which is wholly unnecessary. One can understand if their argument is that their presence on the Board is an impediment to the progress of the movement or has an adverse effect on the fortunes of the Bank. A leavening of the individual shareholders must really be welcomed by the societies' representatives themselves as affording them an opportunity to know how proposals before the Bank strike an ordinary individual and the likely reactions of the public to the doings of its management.

The present position in a number of banks is that the individual shareholders are elected to the Board of Management by a joint electorate consisting of Societies' representatives and the shareholders. The societies' representatives form the large majority and dominate the election. There is no danger therefore of the individual shareholders flooding the bank and injuring the cause of the movement of the societies in general.

Even the remote chance of cantankerous individual shareholder being elected, has been eliminated by the recent adoption by many of the central banks and the Provincial Bank of the system of joint electorate. I should plead for the retention of the individual shareholders and their representation on the Board of Management at least for the reason that we shall be drawing more people to the co-operative movement and inducing them to take interest in it.

An analysis of the evidence collected proves that there is no clear or strong demand for the abolition of the individuals. Out of the 94 opinions recorded at pages 261 to 282, there are only five persons or institutions who definitely want the elimination of the individual members altogether and of them, two recommend the elimination only in the case of the Provincial Bank, but want to retain them in the central banks : one of these two would like to see their proportion increased : I find there is still one more who suggests merely a decrease in the number of the individual shareholders. On the other hand not less than 12 of the opinions definitely recommend the retention of the individuals as being essential to the co-operative movement; some recommend the proportion of 50 per cent and one gentleman raises the proportion to 75 per cent. The rest of the persons are either content to leave the present system to continue or do not desire any change. In this view I am clearly of opinion that time has not yet come for the elimination of the individual shareholders and there is no reason shown why the recommendation of the Townsend Committee that no further steps should be taken in the near future to eliminate the individual shareholders, should be changed now.

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Even the advocates for elimination of individuals have agreed to co-option of experts in the Board of Managements, implying thereby that there are persons outside the body of professional co-operators who may be useful to it. I should always prefer a shareholder though not coming through a primary society to a stranger altogether. Further, the reasons given above for retaining the individuals will also lead to the further conclusion that it will be to the best interest of the movement if the individual shareholders' representatives on the Board of Management are elected by the individuals themselves. The recent tendency in some central banks to have the election by the individual shareholders and the society representatives forming a joint electorate will lead to selection of individuals not independent and frank in their criticism.

I may add that Mr. Ambegaokar, the Officer of the Reserve Bank, spoke strongly to the Committee in favour of the proposition and advised it to accept it.

In this connexion I should like to quote a few passages from a recent article in the *Indian Review* by Mr. D. T. Shah of the Co-operative Department, Baroda State. While strongly advocating large societies with enlarged jurisdiction with limited liability as the basis he says :—

> "The object of having an unlimited liability with a view that every member would check and supervise the money advanced to other members and the society would not suffer by imprudent advances has not been achieved in actual practice, on the contrary the members have made the society a *combination* of individuals for getting loans on easy terms." Again "The liability being limited, people who do not want to borrow may, also, be prevailed to join the societies and the greater the number of such members, the greater will be the strength of the movement."

This is true as much of the financing banks as the primary societies.

As for depositors, a representative of them on the Board of Management will contribute a good deal to the stability of the Bank and is a sure means of attracting local deposits. There is a strong body of opinion in favour of such representation.

K. BHASHYAM.

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Note of Dissent by Sri T. A. Ramalingam Chettiyar, B.A., B.L., M.L.C.

Need for all-sided development of co-operation.

While the report deals with matters in detail and I have indicated below the chief points in which I am not able to agree with the majority I think it will be useful if I state at the outset what I consider are the chief matters we have to keep in mind in the future development of co-operation. The Committee was appointed more for the purpose of advising how best to widen the scope of co-operation and give it a new orientation so that the people of the country, mainly agriculturists, may be benefited to the fullest extent possible by the adoption of the co-operative method in their transactions than to tackle serious difficulties that have arisen in the actual working of the movement even though there are matters like the large overdues and the accumulation of landed properties in the hands of the co-operative primary societies and the central banks here and there to be considered. The co-operative movement in India was started in the first instance to deal with the question of indebtedness and to make cheap credit available to lighten the burden. We have found by the experience of the last 30 years that mere supply of finance, however desirable, has not helped the ryot to improve his position. While we have dealt with banking as a business we have come to the conclusion that no single part or parts of the economic life of an individual can be dealt with separately to improve his general position and that it is necessary to deal with all his economic activities as a whole if we are to better the position of the people on a large scale. So, the main change in our orientation should be to consider the economic life of the countryside as a whole, and not merely to concentrate attention on particular lines of business like banking. Unless the methods of production are improved, all possible economies introduced, work is found to occupy all the time of individuals and all the things produced are marketed to the best advantage; it will not be possible to change the present condition of poverty and helpless despair in which the people live. This is a large programme but there is no way out of it.

Need for co-ordination among "development" departments and between them and non-officials.

The second obstacle to the progress of the country is the appalling ignorance of the people and the crushing poverty which makes initiative and self-reliance impossible. In these days of large scale competition and the cry for nationalization, the organization of production and distribution have to be taken up seriously. The producers do not get the full benefit of their production for want of organization. The middle-men who serve them are, compared to those in other countries, smaller men and consequently the cost of the services rendered by these middle-men is

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much higher probably than in other countries. The middle-men also resort to questionable means to profit themselves and the condition of the ryots lends itself easily to this. While finance and organization are the two essentials of business the co-operative movement has been dealing hitherto only with finance. It is high time the question of organization is taken up in greater earnest. The Co-operative Department and the co-operators have been devoting attention to what is called non-credit work for sometime past. As the quality and quantity of work so far done is very little, compared with what will have to be done, the wholesale organization of the countryside for economic purposes is necessary. The people themselves are too poor and ignorant to organize and the co-operative movement and institutions are not strong enough to undertake organization on a large scale. In a country like India, it is the Government that ought to take up the duty of organization on a large scale. It is very discouraging to find the Government parsimonious. The Government has not yet realized its responsibility for improving the economic development of the people. For a proper development and organization, in addition to propaganda, the services of technical men and men of business experience are also necessary. These cannot be secured by the co-operative institutions existing or likely to come into existence in the near future. The Agricultural and Industries Departments have got a large part to play in the development but without proper planning and organization, the good they can do will be very much minimised. It is by all agencies working together on a common agreed plan that the best results can be achieved. The pace of development has to be set by the co-ordinating and organizing agency which in the present constitution of the Government has to be the Co-operative Department. It is only by the Government freely spending money for the organization and for the securing of technical help and business experience that may be necessary and by providing for a proper planning of the activities and joint working of the departments of Agriculture, Industries and Co-operation that tangible results can be obtained in the future. No sort of antagonism need exist between the non-officials and officials working in these fields as there can be no difference in the outlook for they are all working for the people and they are actuated by the same motives and objects.

It may be that here and there there may be want of understanding between some officials and non-officials and I was myself a victim of one such instance. But on the whole the officers of the departments of Agriculture, Industries and Co-operation should consider that though they are paid servants, they are workers in the same way as the non-officials and adjust their ways so as to remove the idea that they are merely the arms of a bureaucratic Government; and the latter should welcome the officials and work with and through them and not treat them as strangers to be avoided. I hoped that at least with the advent of the popular Government this feeling of antagonism would disappear. I am pained that in

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certain quarters the danger of official interference is harped upon and condemned in season and out of season. It is one of the incidents of official life to be vested with powers of correction, and the exercise of these powers sometimes leads to friction and discontent but that should not deter us from treating the officials as co-workers. As I conceive it, the Co-operative Department will have to be very much strengthened, very largely with men of technical knowledge, to help in processing agricultural produce, in the field of cottage industries and in marketing; and these will have to work with and through the people. In the southern districts the relationship between the officials and the non-officials has been generally cordial and instead of thrusting the services of unwanted Inspectors and Sub-Registrars on the institutions, the Registrar has been reluctant to lend the services of Government employees to institutions which ask for them.

Need for association of businessmen in the movement.

Another matter which I consider very important is the need to bridge the gulf between the commercial and business world and co-operative institutions. When marketing on a large scale is taken up knowledge of various kinds will become necessary. The requirements of the markets, the organization of production to suit the needs of the market, the conditions of the different markets for the same goods along with the preparation and things like grading will have to be known. The non-officials working in the co-operative field cannot be expected to have all the knowledge and experience necessary for varied business. In connexion with the Provincial Weavers Society I found this want of contact with the business world a great handicap. In the one line of the Madras handkerchiefs it took me a year to find out how they were marketed at different stages before they reached the consumers. Even in matters of finance the co-operation of representatives of Insurance companies, bankers and banks will be of great advantage. I often felt the need for them in the Central Land Mortgage Bank. How best to secure this co-operation of businessmen in our organization is a matter of importance. It seems to me that at least in the central institutions intended to serve the whole Province or larger areas of the Province the services of the right type of businessmen should be secured. While we have no secrets to hide from the businessmen, their knowledge and assistance will be of great help in increasing the efficiency and usefulness of co-operative institutions. For this purpose the method adopted by co-operative institutions in the past was the admission of individual members along with societies for whose benefit the institutions work. In course of time this led to the formation of vested interests in the institutions and the domination of particular individuals or cliques. So, we have come to the conclusion that hereafter there is no need for the admission of individual members in federal institutions. The second method that is thought of is to get in the desirable elements by co-option. This will no doubt lead to smooth working of institutions. But there is the danger that the majority co-opting

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may think of strengthening their own position and co-opt only their friends. The third method that suggests itself is the nomination of a small number of persons required by an outside agency like the Registrar. If the departmental officers take sides there is the danger of minorities in management being turned into majorities by this process of nomination. In some of the primary institutions where boards of management are small this has taken place and led to dissatisfaction. But if the nomination is to be confined to big institutions only like the Provincial institutions and if the nominations are to be made directly by the Registrar there may not be the same room for complaint as the boards of management of these bodies will be large and the nominations will be too small to affect the comparative strength of the parties in the boards concerned. The introduction of this element, in addition to securing for co-operative institutions the knowledge and experience of the business world, will get the movement into touch with the outside business world and also infuse confidence in the people and in the Government and secure a much larger co-operation and prestige for the movement. I know the unpopularity attached to nomination in the movement and I would by all means avoid being the authority to nominate. Provided the right type of men can be secured, I have no objection to any other method that may be adopted.

Dangers to be guarded against.

Another matter which I should like to refer to is the increasing introduction of party politics and election tactics in co-operative institutions which used hitherto to be found only in local boards and Legislative Council elections. There is also the danger that on account of the importance co-operative institutions are gaining, persons who have no interest in co-operation come into the movement to secure power and strength for their political activities. Many people come in to make the institutions help them in their elections to local boards and Legislatures. There is still another set which wants to utilize co-operative institutions for personal ends. While some have their eye on jobs others like moneylenders and landhloders may try to transfer their bad debts to the societies. The movement has to protect itself from all these elements. There will also be danger if a sort of professional co-operators come into existence and want to dominate the field. These dangers are to be guarded against.

Multiple-Purpose societies—Are they the panacea of all evils?

Like all new ideas and proposals the idea of multi-purpose societies is now put forth as the panacea for all evils and the bringer of the millennium. The introduction of multi-purpose except of a very simple nature in a village society is more likely to do harm than good. The constitution and working of a village society has to be very simple and if more than one purpose is assigned to it difficulties will arise in account keeping, in keeping the several businesses separate providing for each purpose the improvement it

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requires and generally in securing the knowledge and experience necessary for running the several purposes. Even in more advanced countries the co-operative opinion is in favour of confining primary societies for single purposes and constituting separate societies for each purpose. Ordinarily work of a simple nature should alone be assigned to village societies, and all other work should be assigned to federations of societies located in suitable centres and served by competent men with knowledge and experience. The assignment of multi-purposes to village primary societies will, I fear, lead to the breakdown of the movement. I am therefore constrained to express a note of warning especially in view of the fact that in several parts of the report emphasis is placed on the introduction of multi-purpose societies and the great benefits expected out of them. The Conference of the Registrars held in last December has also sounded a similar note of warning by asking the multi-purposes societies to be started only as an experiment to be cautiously tried and results noted.

Agricultural credit societies—Are changes in constitution, liability and objects called for?

The Committee has made very far-reaching recommendations with reference to the constitution and working of agricultural credit societies and for the rectification and revival of bad and moribund societies. These recommendations are directly in conflict with accepted principles of co-operation and co-operative practice, and I am convinced that the adoption of these recommendations will, instead of contributing to the progress of co-operation in our Province, deal a death blow to village co-operation and seriously affect the financial position and prospects of central banks.

Co-operation is a voluntary association of people who know each other for the purpose of their financial betterment and the guiding principle is "Each for all and all for each." The village societies adopting these principles have been confined to small areas, generally not more than a village. The bed-rock of Raiffeisen Co-operation, namely, unlimited liability was the fixed principle on which village societies were formed. Mutual knowledge, mutual responsibility, mutual supervision and joint endeavour, wherever possible, were the guiding factors internally while the development of self-help and self-reliance should rule their conduct with reference to the outside world. The recommendations of the Committee give the go-bye to all these principles and practices of co-operation and want the village co-operative societies to be turned into institutions formed on joint stock principles.

The formation of village societies for larger areas of three to five miles radius will eliminate mutual knowledge of members and the value of character and conduct of members as elements on which credit will be based will naturally disappear. The Province of Madras can claim to have achieved some success in the working of co-operation and it is second only to the Punjab in India in the area covered by co-operative societies and in the working of co-operative institutions. There has been no general demand for the radical

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change that is now proposed in this Province and the Punjab has not gone back on its original principles and adopted the recommendations now made. The Tamil districts which have more co-operative societies than the northern districts have not asked for any change. So far as I have been able to gather, the Ceded districts are not in favour of the changes proposed either. It is a pity that the Committee that was appointed has not been appointed on a principle of proper representation of the various areas concerned and it was too big (and consisted of elements gathered for various reasons) to form an expert body and too small to form a conference.

The Officer in charge of the Agricultural Credit Department of the Reserve Bank of India has given many of the reasons for adhering to the present practice of having rural societies confined to a village ordinarily and to the retention of the unlimited liability as the basic principle of the constitution of the village societies. The advocates of the changes mainly base the recommendation on the need for bringing in substantial people who fight shy of unlimited liability and their desire to make the societies multi-purpose societies instead of mere credit institutions and the need for the employment of paid staff which the village societies as now constituted cannot afford. They also want the whole country to be brought under co-operation as early as possible. It is not merely by extending the area of a co-operative institution that it is made to serve the purpose of the people. What really stands in the way of the people is their ignorance and proverty. It is only by propaganda that the benefits of co-operation can be made available to the people. Knowledge of the principles and benefits of co-operation is growing and in spite of the fears and forebodings of the majority of the Committee and those who think with them, applications for constitution of new societies are pouring in, in all parts of the Province. Co-operation is intended to develop self-reliance and it is not by bringing villages wholesale under probably a bigger centre that these qualities can be developed in the remote parts. While I have always favoured and worked for the co-operative method being adopted for all purposes, I am decidedly of the opinion that the village societies should not be allowed to venture in the multi-purposes. The village institutions are of a simple nature and their work should be as simple and as well known as possible. They should not be allowed to dabble in matters in which they will be brought into contact with outside agencies and which require knowledge and training. The by-laws of village credit societies make provision for joint purchase of seeds, manures, etc., and for joint sale. The present village societies are capable of doing these things and in many cases they have done so. The purchase of cotton seed jointly by the societies in the Coimbatore and Salem districts and the purchase of manures by the societies in the Nilgiris are in point. While joint sale in the village itself may be undertaken in the society it will be dangerous for village organizations to undertake generally the sale of produce as that would require special training, knowledge of

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market conditions and business capacity. I would not enlarge the scope of the village societies beyond what is allowed in their by-laws at present. The recommendation to enlarge the area of the village societies to a radius of three to five miles will not make the societies more capable of undertaking other functions than credit and simple transactions allowed by the present by-laws. The experience of other countries and the advice of well-known co-operators have all been against enlarging the work of the village co-operative societies. The present system of keeping the village societies to the functions they can understand and control and form societies separately for other functions suitably to their needs is, in my opinion, the best method that can be adopted to get the best of both. For example, cotton growers' societies, sugarcane growers' societies and potato growers' societies have been formed in the Coimbatore and Nilgiris districts for the purpose of helping cotton growers, sugarcane growers and potato growers in various ways. Where functions have to be performed as in the case of these societies it is not an area of three to five miles that has to be brought in under the jurisdiction of a society for achieving the results wanted. The cotton growers' society has got two taluks as the area of operations, the sugarcane growers' society about the same area and the potato growers' society the whole of the Nilgiris district under its operations. My conception of co-operative work to be done is by the institution of co-operative village societies one for each village and the federation of these village societies, in large units as circumstances may require for the performance of more complicated functions. The sale of agricultural produce cannot ordinarily be undertaken by a village society. It has to be undertaken by a society whose headquarters will be at the market centre and whose area of operations will comprise all the villages which generally depend on the market centre for selling their goods. The area of operations for the sale of cotton for instance comprises the whole of a district and sometimes even more and the jurisdiction of the Tiruppur Trading Society whose main business is sale of cotton comprises the whole district of Coimbatore. As a matter of fact parts of Madura and Salem districts wanted to be served by the Tiruppur Trading Society from time to time.

Enlargement of the functions of the village societies will jeopardize the very existence of those societies. Merely extending the jurisdiction to a radius of three to five miles is not going to bring any betterment of societies nor is it going to avoid factions as factions in the country side are not confined to a revenue village. We have not yet agreed that all the urban banks can undertake the lending of money on jewels and on goods. To allow village societies on a large scale to lend money on jewels and other movable properties will be a risk attempt. Even so some of the bigger village societies have already been allowed to advance money on agricultural produce where the difficulties can be got over. We had to decline to lend on the pledge of tobacco and jaggery as they require constant attention.

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Village societies have now been managed by the panchayatdars of societies. The secretary or the president has been taking interest and keeping the accounts and looking after the affairs of the societies. Even if a clerk was appointed in big societies to write the accounts, the secretary or the president of the society was looking after the affairs of the society. Some of the societies in the district of Coimbatore have had transactions between fifty thousand and a lakh of rupees and they have been well managed with the present arrangement. The appointment of a separate paid agency might take away the initiative and the interest which the panchayatdars now take. We have to be careful that no complicated accounts or procedure are introduced in the village societies which will necessitate the appointment of a paid agency or lead to the dominance of that paid agency, if appointed.

The recommendation to change the basis of village societies from unlimited liability to limited liability is the worst of all. Unlimited liability, as I said, is the bed-rock of Raiffeisen Co-operation and all countries which adopted Raiffeisen Co-operation have stuck to it. All agricultural countries have made it the basic principle that village co-operation should be on the unlimited liability basis. In an agricultural country like Denmark, the principle of unlimited liability is adopted even in bigger institutions. Japan which wanted to try the limited liability and left the orthodox principle for a time, has come back to the old moorings of safety. It is strange that we alone should think of giving the go-bye to the ground principle. Even in our Province the Tamil districts are solidly for the retention of the unlimited liability in village societies. Even after the Committee started its discussions and wanted to change the basis to limited liability, the Tamil Nadu Co-operative Conference and the Tinnevelly District Co-operative Conference affirmed their faith in the orthodox principle and protested against the changes proposed. The Ceded Districts Co-operative Conference has also taken the same attitude. Such being the case, I venture to submit that the majority opinion in the Committee is not shared very widely in the Province, much less is the majority opinion of the co-operators in the Province.

The introduction of the limited liability principle will make it impossible for people without visible property to pledge to get accommodation for their needs. The large body of tenants and artisans and members of scheduled classes will not be in a position to get any loans from a society. There will be no need to look to the purposes for which loans are taken or see to the proper utilization of the loans taken. Provided the security given is good, the society will not care to look deeper into the transactions. As a matter of fact, for the purpose of getting profits and enhancing the salary of the paid agency, efforts will be made to increase the transactions without caring for social or moral aspects of transactions. I doubt very much whether even after giving up all the principles of co-operation and running risks known and unkown, the transactions will increase very much. On the other hand, there are positive dangers in making the change. There are

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cases in which an influential man uses the names of a number of his dependants for the purpose of getting a large loan for himself even though the loan application shows 20 or 30 persons as borrowers of Rs. 100 or Rs. 200 each. The whole amount borrowed goes for the benefit of the influential man. These dependants accommodate the influential man by executing documents to the society and admitting the receipt of the loans. At the present moment it is the fear of enforcement of unlimited liability that makes the influential man pay back the loan himself in time or after default. Can we expect the same when the basis of the liability is changed? There have been cases in which an influential man who is a secretary or president received payments towards loans from members but did not credit in the accounts. The actual borrowers being dependent on him or being afraid of him are prepared to screen him. It is only the fear of unlimited liability being enforced that makes these influential men disgorge what they received. There have been cases in which some influential members of the panchayat have purchased properties and entered into arrangements agreeing to discharge loans of other members. These again discharge the loans on account of the fear of unlimited liability. So, the principle of unlimited liability is of use both in helping good men in societies and in enforcing proper conduct from bad men in societies apart from the outside creditors being secured for the repayment of the loans given to the society. The argument that rich men and desirable men fight shy of the movement on account of the existence of the unlimited liability is very much exaggerated. I do not deny there may be a few cases where desirable men are deterred from joining societies by the fear that they will have to pay for the fault of the defaulting borrowers. The ordinary people of means who want to help themselves or others are not deterred from joining societies. In my district there are many cases of people worth lakhs of rupees who have joined unlimited liability societies. They naturally take interest in the working of the societies and see to the avoidance of fraud and evil practices. On the other hand, most of the difficulties we have felt in the management of village societies have come from the so-called people of means joining the societies. It is these rich people that generally commit malpractices like those I have mentioned above. There are also cases where money-lenders, join village credit societies, quietly transfer their bad debts to the societies and resign their membership. I am not at all sure that the reluctance of these so-called better classes to join societies is an unmixed evil. Their joining no doubt increases at present the maximum borrowing power of the societies, but when limited liability is introduced it will not do that. For, then, the credit of the society will be based on the share capital and reserve fund owned by the society. As against this advantage the big men who join, dominate these societies and deny the people the privilege and training in democratic Government and self-reliance.

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The village societies will get very much less credit than they do at present if they are organized on the basis of limited liability as the maximum borrowing power will have to be based on the share capital collected by the society. For other limited liability societies three to four times the amount of share capital alone is allowed. The village societies cannot get greater accommodation. The loan applications are sanctioned now by the society and on account of the unlimited liability of the panchayatdars who sanction them they are sanctioned easily by the banks. With the change proposed each loan application will have to be scrutinized carefully by the central bank both with reference to the security offered by each applicant for a loan and his repaying capacity. This will naturally involve delay and financial control from central banks. So, instead of the transactions increasing, I fear, there will be contraction of credit and transactions. Loans except on the pledge of visible security will almost disappear. The effect this proposed change will have on the free flow of deposits to the central banks which finance the village societies is also a matter for serious consideration. I am glad that the 13th Conference of the Registrars held in December last have resolved that the principle of unlimited liability should be continued in rural credit societies and have merely recommended provinces to experiment with multi-purpose societies to ascertain more clearly the conditions under which they are likely to thrive and the form which they should take with special reference to their area of operations, liability and purpose. I have already referred to the opinion of the Officer of the Reserve Bank of India, Agricultural Credit Department. The overwhelming opinion is in favour of the continuance of the principle which is the bed-rock of the Raiffeisen Co-operation wherever it has been adopted.

I am aware that in some districts where the purposes for which loans were given were not properly classified and loans were given only for a short-term of a year or less, troubles arose as soon as the depression set in. Instead of examining the capacity of the borrowers to pay and allowing them an extension of time wherever they required it, societies were hastily liquidated and the unlimited liability was enforced. The result was that many people had to pay for the default or mismanagement of others. This was the experience only in a few districts. In the district of Coimbatore where short-term loans and long-term loans were given by the central bank according to requirements and extensions were allowed where really necessary, the liquidations were very few and I am not aware except in one case that a person was asked to pay more than what he was bound on equitable principles to pay. Experience of many districts in which there was proper differentiation of short-term and long-term loans, was the same. It is mainly in those districts that suffered by the hasty liquidation of societies that the clamour for a change from unlimited liability to limited liability exists.

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Is voluntary pool of reserve funds of societies based on co-operative principles?

There is another recommendation of the majority which is also subject to serious objection. Everybody agrees that bad societies should be rectified and moribund societies should be made to work. But in the process of rectification and revival no injustice should be done to the good societies and their position should not be affected. The principle of each for all and all for each is intended for the members of a society and it does not justify the appropriation of the reserve fund gathered by the good management and safe working of one society to make up for the bad management and the bad working of the members of another society. The principle is based on mutuality and there is no mutuality between the members of one society and those of another. So the proposal that a portion of the reserve fund of good societies should be given compulsorily or voluntarily (which will be very often voluntarily only in name) to resuscitate bad societies is not based on any co-operative principle. A principle like this even though enunciated as a temporary measure is fraught with serious consequences to the movement as a whole. Good societies build up reserves to better their position to become more credit-worthy and to help them in future needs. There will be very little incentive for accumulating reserve fund if the recommendation of the majority is accepted. I fear that the recommendation will discourage good management and lead to indifference if not bad management, and there will be a loud clamour every few years for pooling the reserve fund of good societies for the benefit of the bad societies. I consider this a dangerous innovation. Every conference which met in this Province after this principle was enunciated has condemned this recommendation of the Committee. In the Provincial Conference held last year, the principle of pooling the reserves was condemned by a majority of four to one even after the authors of the proposal had made very fervent appeals to the Conference. Writing off a portion of the dues from the bad debt reserve of the central bank stands on a different footing. The bad debt reserve in the central banks has been built up for the very purpose of providing for bad debts and has been built up from the income derived from societies of which the society in need is one. So there is no objection in principle to the central bank contributing a portion of its bad debt reserve for the rectification and revival of societies. But it ought to be borne in mind that if this is allowed to one society, other societies will clamour for the same and the influence of prominent representatives of unions will be brought in to help all societies in default. Provided adequate safeguards are taken to extend the help only to such societies as have suffered loss for no fault of theirs and there is no doubt about the revival of the society which otherwise will have to be liquidated and the amount to be written off is not very much, the evils attendant on the procedure can be minimized. I am not prepared to go further. If this restricted help is not enough and the societies have to be liquidated, we will have to face the situation and not jeopardize

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the position of other societies or the central banks. It should be remembered that the bad debt reserve in the central bank has to meet the loss in liquidated societies which, if fears entertained in some quarters are true, will take away a large portion of the bad debt reserve available. So, a large amount of caution is necessary in giving effect to even this partial recommendation.

Is there need for separate societies for the scheduled classes?

The majority have recommended the formation ordinarily of separate societies for the scheduled classes. I think this is a wrong policy. Members of scheduled classes should ordinarily join the village societies. It is only in those cases where they cannot get help from village societies or when they want to club together for specified objects like colonization that they should form separate societies. In many of the village societies members of the scheduled castes are already members and they are getting all the help necessary. It will be much easier for them to get credit in the ordinary credit societies than in a separate society formed for themselves. Ordinarily, the central banks fight shy of a scheduled class society as the property and the repaying capacity of the members are not always found satisfactory. Their position will become worse if the principle of limited liability is introduced in their societies. The past experience of the Madras Christian Central Bank does not encourage the formation of separate scheduled class societies and the financing of them by a separate bank. I agree that where there is necessity for a separate scheduled class society and where the central bank is not prepared to finance the society, the Government should come to its help.

Need for assignment of individual pattas in scheduled class colonies.

I cannot also support the recommendation of the majority that in scheduled caste colonies the pattas should be issued to the societies and the members should for ever remain tenants cultivating the land that will be assigned to them by the society from time to time. The sense of property is a very valuable human factor. It infuses a spirit of self-importance and self-reliance. Without the sense of property the member will not feel any abiding interest in the land he cultivates or put forth efforts to develop and improve it. There is absolutely no reason why while the other sections of the community are allowed to be proud of their possessions and command the prestige and influence that go with them, the poor members of the scheduled castes alone should be denied them. Their poverty and their ignorance no doubt stand in the way of their making the best use of the lands that may be assigned for their benefit. The proper way is, in my opinion, for the patta to be assigned in the first instance to the society which will develop the land and bring it under cultivation and pay for the maintenance of the colonists. The cost may be distributed on the land and each member to whom a plot is allotted should be in a position to get the patta transferred to his name on payment of

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the amount he has to pay on the land either in one lump sum or in instalments distributed over a short or long period as the circumstances of the member require. It is only by that way the members of the scheduled classes can be made to feel pride in their possessions and improve the land assigned to them and become respectable members of the community.

There are some minor matters in the report in which also I do not agree with the majority that supported them.

General.

I heartily join in the encomiums paid to the Chairman and the Secretary of the Committee. The former with his urbanity, good humour and courtesy made the rather tedious and long drawn-out work of the Committee tolerable and the latter with his industry, patience and wide knowledge contributed to the wide sweep of the matters discussed and the level of the discussion and ultimately to the form and contents of the report.

T. A. RAMALINGAM

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Note of dissent by Diwan Bahadur K. Deivasikhamani Mudaliyar.

Agricultural Credit Societies—Liability : (Paragraph 165 of the Report).

I do not accept this recommendation which says that the liability of the members of village credit societies shall normally be limited and in special circumstances be unlimited. I would have it the other way—the liability shall ordinarily be unlimited and in special circumstances limited. I have been in the movement for over 36 years and I do not admit the statement that unlimited liability has deterred well-to-do people from joining village credit societies. In very many societies such people are found in large numbers. To the reasons given in paragraph 168 of the Report for not accepting limited liability for rural credit societies I shall add the following :—

> A limited liability society must have substantial paid-up share capital to serve as the margin of safety for its creditors. A village credit society cannot have this as the value of shares is generally paid by many of its members out of loans taken by them from the society itself. People do not form village societies for purposes of investments as they do in urban societies where we find that about 50 per cent of the members are non-borrowers. In banks where the share-capital is paid by borrowing there is not much of the margin of safety—owned capital—for the creditors. Hence limited liability is not advisable in village credit societies.

Area of operation : (Paragraph 154 of the Report)—

I have no objection to the inclusion of more than one village in the area of operations of a rural credit society. But I cannot agree to the area being extended to a radius of three to five miles from the central village. The idea underlying the recommendation contained in this paragraph seems to be that the size of the society should be such as to permit the maintenance of somewhat big staff to run the society. I am afraid that such a society will lose its co-operative character and become a mere bank or a money-lending shop.

The weak point in the financial structure of the Co-operative movement—too much dependence on short-term deposits and the consequent inability of the societies to give loans for all the legitimate needs of the ryot—

The ryot requires money for various purposes—to meet cultivation expenses, to pay kist, to buy cattle, to build houses, to dig wells, to improve land, to pay off prior debts, etc. He cannot repay all the loans taken by him out of the next harvest or within one or two years. Some he can repay out of the next harvest, some in two or three years and some in five to ten years or more. The Central Bank which finances him through the

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village credit society has not yet devised a method by which it can give a loan convenient to the ryot. The bank takes a short-term deposit for a period of one or two years and uses it in giving loans to village credit societies. Owing to this, it changes its loan policy frequently in regard to the period of the loan. Once loans were given for a period of 11 years. The period was reduced to two years afterwards. Again no loan was given for more than a year for some years. This period was raised again to three years (some Central Banks persisted in giving loans for ten years). All these changes were due to the objections raised to short-term money being used for giving loans for long-term purposes. In effect the Central Banks tell the village societies that they cannot have loans suitable to the convenience of the ryots but they have to pay back their loans to the order of the banks. The societies want the money and take it whatever may be the conditions laid down with the result that they default in regard to repayment. The heavy overdues in societies at present are to a large extent due to the inadequate period given by Central Banks. The failure of the movement in some parts of Northern India was the mostly due to the fact that the short-term money of the Central Banks have been used by the ryots for long-term purposes. It is true that the land mortgage banks have now come to the help of the ryot to some extent. They give loans for payment of prior debts for a period of 20 years. The Central Banks allow a period of five years. The gap—five to twenty years —has to be filled up. All loans for periods of over seven years may be taken up by the land banks. I have no objection to central banks giving loans up to five years from out of their deposits but some portion of their money will have to be long-term money raised by way of debentures or borrowed from Government. The working of the central banks elsewhere in India has clearly shown that this *precaution* should be taken. The Provincial Bank may float debentures and lend the money to Central Banks for this purpose. If the Central Land Mortgage Bank is not agreeable to the Provincial Bank floating debentures that the bank will have to lend to the Provincial Bank the money required for the purpose. If Government will not permit this, they will have to give to each central bank sufficient money for this purpose.

K. DEIVASIKHAMANI.

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Note by Sri J. Sivashanmugam Pillai, M.A., M.L.A.

This note is not written on account of the variance of opinion held by me with the other members of the Committee but to bring out the real causes for the dormant condition of the depressed class co-operative societies and to suggest ways to remedy them. It should be noted that of the societies which became defunct or were liquidated on account of misappropriation, none belongs to the depressed classes; in other words, not a single depressed class society became defunct or was liquidated on account of misappropriation of funds, fraud or embezzlement. So the real cause for the present bad state of the societies is the poverty of the depressed classes and the remedy lies entirely with the Government. As early as 1927 the Townsend Committee wrote :—

> " The condition of these classes is peculiar. They are extremely poor and have no property which they can pledge. Their only asset is their labour and character, and these form the only basis for their credit. Co-operative activity, if only confined to credit, is of little value to them. Co-operation in their cases must be employed to stimulate thrift, to increase their earning capacity, and to secure for them a larger margin of income by better marketing.
>
> " Co-operative societies for these classes are unable in most cases to secure from the ordinary non-official supervising agencies the care and attention which are in their case peculiarly essential. The special problems which they offer centre round organization, supervision and finance.
>
> " Since responsibility for the general amelioration of the condition of the depressed and labouring classes lies with the Labour Department, we consider that, in districts where the department is working, it should undertake all work connected with the organization and supervision of societies for those classes, as part of its general responsibility for them. The present Labour Commissioner desires to be relieved of all duties in regard to co-operative societies, except the task of stimulating them in a very general way. He would leave their actual management and supervision with the Co-operative department, under which, he thinks, the special inspectors allotted for these societies should work. We however fear that, if those functions are entrusted to the Co-operative department, they will not receive due attention and that there is danger of their being neglected in favour of the easier and more promising work among the higher classes. We would therefore entrust, as at present, to the Labour department the organization of societies and all duties of supervision,

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including the writing up of accounts when necessary. But the Co-operative department should discharge the statutory functions of audit and liquidation."

The Government without heeding the warning given by the Committee entrusted the depressed class societies to the Registrar of Co-operative Societies. If they were not transferred they would not be in this condition. Hence I am of the opinion that the Labour department should be again entrusted with the work of organization and supervision of depressed class societies.

The depressed classes who borrow money from the co-operative societies can be divided broadly into two classes, the depressed classes who live in the City of Madras and in towns, and those who live outside the abovementioned places. The latter classes are all landless agricultural labourers.

These people are entirely at the mercy of the caste Hindu landlords. They do not even get enough for their daily food. In short, they are weltering in poverty. We have recommended in the present report various remedies to rescue these poor people from the clutches of the landlords. Over and above these recommendations, I am of the opinion that an Agricultural Labourers Act on the model of Law 25 of 1923 of Hungary to limit the merciless exploitation of agricultural labour is absolutely necessary. The Act should provide for the organization of a machinery in each taluk well represented by these poor depressed class agricultural labourers to fix a minimum wage for the labourers. If the labourers are assured of a minimum wage, their condition will not be as pitiable as it is now.

Most of the depressed classes who live in the city and towns are domestic servants. Just as the landlords exploit the poor labourers, so also the domestic servants are exploited by their masters. These poor servants have no law to protect their economic freedom. Many employers do not give salary to their domestic servants when they go on furlough nor are they given pension or bonus for long services. In order to improve their economic condition a Domestic Servants Act (as seen in Austria) is necessary. It should provide for bonus for long services and pay during absence of employers (masters) on furlough. Such provision will make the domestic servants economically sound.

J. SIVASHANMUGAM PILLAI.

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Note by Dr. P. J. Thomas, M.L.C., on the Agency for Rural Uplift Work.

In Chapter XIII of the Report, it has been shown that a greater co-ordination between the development departments is essential in order that economic uplift measures may be effectively carried out, but the proposals made for the purpose are, in my opinion, inadequate.

The problem is this. We have various departments working for rural uplift, Agriculture, Co-operation, Industries and Public Health. These have their staff in the district and as the need for propaganda increases, such staff has been added to from time to time. In fact, much of the funds allotted to these departments since 1921 has gone for the multiplication of staff. Yet, the progress of economic uplift has been slow, too slow; and the work of the most of these departments has not reached the villager. This is largely because each department has been working by itself, more or less as a water-tight compartment. The villager whom all of them want to help needs a co-ordinated agency near by to assist him. He wants one person to whom he could go for meeting all his economic needs. Hence the need for rural guides. The rural guide must represent to the villager not one department but all or most of the nation-building departments.

The co-ordination required cannot be secured by an occasional meeting nor even by a standing committee of the district heads of the various departments under the Collector. A more drastic change in administrative methods is needed. Either the district officer (Collector) must have charge over the District staff of all these departments, technical assistance and guidance alone forthcoming from the Departmental heads at Madras, or one of the development departments must be charged with the work of economic uplift, others supplying mostly technical advice. Bombay has shown preference to the latter alternative by making the Registrar of Co-operative Societies, the Director of Rural Development also.

There are good reasons for making the Department of Co-operation the central agency for economic uplift. Firstly, it controls the finance both of agriculture and handicrafts. Secondly, while agriculture and industries are necessarily technical departments, co-operation is predominantly a propaganda agency and has a large number of local public organizations (the various kinds of co-operative societies) to carry out its instructions, or to avail themselves of its ministrations. The Co-operative staff can help the people, through their local organizations, in regard to agricultural improvement, subsidiary industries, perhaps even in regard to village sanitation and education. This department has already

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tried its hand at marketing and should the marketing organization now under the Department of Agriculture be transferred to the Registrar of Co-operative Societies, a large step would be taken on this path. Agriculture and Industries would continue as independent departments, with their technical staff, but the propaganda work will be largely done by the co-operative agency.

The other alternative is to give the District Collector authority over all the staff of the development departments in the district. This would enable us to harness for economic uplift the one department which still has the greatest prestige in rural areas—the Revenue Department. The District Officer is now saddled with too many duties connected with revenue collection and magistracy, but he can be divested of part of these duties and economic uplift made his principal duty. No doubt the present Revenue Officers lack the training for such a comprehensive work, but latterly such training has been imparted to the I.C.S. probationers in England. Provision can be made for further training in India. It is thus possible to make the Collector of the future more interested in economic uplift work. Along with this, a transformation of the whole scope of district administration is possible. Sir Thomas Munroe, who more than anyone else, is responsible for the establishment of the Madras district system, was keen on the Collector being not merely a revenue authority but the provider of economic welfare in its widest sense. Conditions have indeed changed since Munroe's days, but even now one can see as much advantage in a unified district administration. The Collector's co-ordinating authority will be most valuable in making up the budgets of all the departments in the district.

We may select any of the alternatives above stated. The present system is expensive without being efficient. Each of these departments will ask for more staff as time goes on. This must be prevented, in the interests of the tax-payer. The main burden of rural uplift will necessarily fall on rural voluntary organizations (panchayats, co-operative societies, agricultural associations, etc.), and what is needed from Government is some general guidance from a unified source, rather than from an array of functionaries often working at cross purposes.

P. J. THOMAS.

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Note by Sri A. Karunakara Menon, M.L.A., on the need for some degree of compulsion in Agricultural Co-operation.

I agree with Sri K. Bashyam, M.L.A., in thinking that semi-compulsion, indirect compulsion or compulsory persuasion—by whatever name you may call it—alone will succeed in imparting the benefits of co-operation to our villagers, illiterate and unbusinesslike as they are at present, on a large scale and in as short a period as possible. Such compulsion or persuasion may be brought into play by affording special concessions or facilities in education, sanitation, medical aid, maternity care, child welfare, reading rooms, recreation centres, etc., to those persons or families who are members of co-operative societies. Each family or at least a member representing each family in a village should become a member of the village multi-purpose society. The surplus funds of the villagers should find their flow only into co-operative institutions. Investments of money by rich persons on agriculturists' lands for the sake of interest or profit should be prohibited or controlled. Agriculturists' lands are to be mortgaged when need arises only to co-operative societies. Co-operative societies should be the sole credit-giving agencies for villagers. They should concern themselves with their whole economic life. In short, agricultural credit must be the sole monopoly of co-operative credit societies. These societies should be linked up to one another in order to be of help among themselves. Such a scheme would make it impossible for an agriculturist to get himself ruined by falling into the clutches of a professional or a middle-class money-lender. I concede there are several details to be filled up in the above scheme. But once the principle is admitted, it will not be difficult to complete the picture. If the family head or the State can control and regulate some of the essential activities of an individual, there is no reason why co-operative society should not be allowed to take charge of the economic department of his life. I am conscious that for some years at the beginning when the scheme is put into operation, close State guidance and State supervision will be necessary. Having regard to the benefits that are sure to follow by the application of this scheme, I recommend that it should be given a fair trial at least in some villages. If the scheme will act as a solvent of the several economic ills that the agriculturists are suffering from, we should not get ourselves frightened by the novelty or the revolutionary character if any of the scheme.

A. KARUNAKARA MENON.

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Note by Sri V. Kurmayya, M.L.A., on the need for some degree of compulsion in Agricultural Co-operation.

I agree with the views of Sri K. Bashyam on the question of making co-operative societies the only source of credit for agriculturists. I concur in his recommendation that the agriculturist should be prevented from borrowing except from co-operative societies and that no mortgage of agricultural land should be valid unless it is made to agricultural co-operative society or with its consent. By only some such measures of compulsion can the richer classes be made to join the village society and lend their credit to the poorer brethren. It is only this way that the village hegemony and harmony will be restored.

V. KURMAYYA.

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Note by Mr. P. N. S. Ayyar on the Audit of Co-operative Societies.

I understand the Committee have agreed on the following recommendation amongst others in regard to the audit of the co-operative institutions; that the audit of the central banks, urban banks with a working capital of Rs. 20,000 and above and non-credit societies should be conducted departmentally by employing full-time staff of technically qualified auditors who should have been adequately trained for the work. There are to be three classes of auditors, the District Audit Inspector, Senior Auditor and Junior Auditor.

In view of the aim that a high quality of work should be secured, it is presumed that the department will be prepared to recruit persons holding highest qualification in the line, the Registered Accountant, at least for the posts of the District Audit Inspectors. With another Registered Accountant as the Chief Audit Officer it should be possible to co-ordinate the whole audit work of the entire department and improve the quality of audit.

I would like to put before the Committee the advantages of engaging practising Registered Accountants for the audit of the institutions under consideration.

It is admitted that central banks and urban banks are run as commercial concerns and just as a good business capacity is necessary to run these institutions successfully, it must be obvious that for a satisfactory audit of these institutions, the auditor must also possesss those qualities that go to make up a good businessman. The qualities are not ordinarily secured by mere reading or hard working but only by actual living and the practising auditor has certainly an advantage over the official auditor as day by day with an alert mind he is gaining wide knowledge and varied experience. Further, the resources of these institutions are mainly drawn from the public and in an audit by a practising auditor whose living depends upon his reputation for skill and care, a far greater measure of security is provided than the mere legal responsibility of the Registrar. The Registrar is no doubt the statutory authority for the conduct of audit but the extent of his responsibility is not clear. It is doubted if it is anything appreciable. On the other hand, the personal responsibility of a practising auditor in regard to the representations made by him in his report on the accounts audited by him is not negligible.

It will thus be seen that by the engagement of professional auditors for the audit of these concerns, the movement can have better service and greater security than by any official audit. It is this aspect of the matter that I would request the Committee to consider and to recommend the non-official audit wherever possible and feasible.

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An audit is as necessary for a corporate financial concern. The object of an audit is manifold and the detection of fraud is the most important of them. One advantage that is secured by the employment of an auditor of standing is that losses of certain kinds can be recovered from him. The Committee records that the flow of money into the movement is due to the confidence in the Government audit. It is therefore clear that the investing public feel that the advantages of an audit are assured to them by the Government audit. It is doubtful if there is any ground for such feeling. I think that the movement cannot at present pay for an independent and efficient audit of many societies. The Government should therefore continue to do the work; but with this addition that they should expressly hold themselves liable for the negligence or irregularities of their staff. The Committee has recommended an amendment to the Act by which it is sought to make the lowest grade members of the audit staff responsible for the losses arising from their negligence or irregularity. The adoption of this proposal will impair the confidence in the Government audit. I therefore do not agree to the recommendation.

P. N. S. AYYAR.

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APPENDIX I.

MADRAS ACT No. VI OF 1932.

An Act to consolidate and amend the law relating to co-operative societies in the Presidency of Madras.

As existing.	Amendments recommended by the Committee.	
WHEREAS it is expedient further to facilitate the formation and working of co-operative societies for the promotion of thrift, self-help and mutual aid among agriculturists and other persons with common economic needs so as to bring about better living, better business and better methods of production and for that purpose to consolidate and amend the law relating to co-operative societies in the Presidency of Madras :	No change.	Preamble
AND WHEREAS the previous sanction of the Governor-General has been obtained to the passing of this Act ; It is hereby enacted as follows :—		
PRELIMINARY.		
1. (1) This Act may be called the Madras Co-operative Societies Act, 1932.	1. No change.	Short title and extent.
(2) It extends to the whole of the Presidency of Madras.		
2. In this Act, unless there is anything repugnant in the subject or context,—	2. (*a*) No change.	Definitions
(*a*) "by-laws" means the registered by-laws for the time being in force and includes a registered amendment of the by-laws ;		"By-laws."
(*b*) "committee" means the governing body of a registered society to whom the management of its affairs is entrusted ;	(*b*) No change.	"Committee."
	Add the following new clause after clause (*b*) :—	
	"(*bb*) '*credit society*' *means a registered society the main object of which is the provision of credit to its members in cash or in kind or in both.*"	
	Explanatory note.—The introduction of certain new terms in the Act has rendered further definitions necessary.	
(*c*) "financing bank" means a registered society the main object of which is to lend money to other registered societies ;	(*c*) No change.	"Financing bank."
(*d*) "member" includes a person joining in the application for the registration of a society and a person admitted to membership after registration in accordance with the by-laws and any rules ;	(*d*) No change.	"Member."
	Add the following new clause after clause (*d*) :—	
	"(*dd*) '*non-credit society*' *means a registered society which is not a credit society.*"	
	Explanatory note.—Please see note under clause (*bb*).	

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	As existing.	Amendments recommended by the Committee.
"Officer."	(*e*) "officer" includes a president, vice-president, chairman, vice-chairman, secretary, assistant secretary, treasurer, member of committee, and any other person empowered under the rules or the by-laws to give directions in regard to the business of the society;	(*e*) No change.
"Registered society."	(*f*) "registered society" means a society registered or deemed to be registered under this Act;	(*f*) No change.
"Registrar."	(*g*) "Registrar" means a person appointed to perform the duties of a Registrar of Co-operative Societies under this Act; and	(*g*) *Delete* the word "*and*" occurring at the end of this clause. *Add* the following as clause (*h*):— "(*h*) '*supervising union*' *means a registered society, the main object of which is to control and supervise other registered societies which are its members*; *and*" *Explanatory note.*—Same as for clause (*bb*).
"Rules."	(*h*) "rules" means rules made under this Act.	*Re-letter* the clause as (*i*).
	REGISTRATION.	
The Registrar.	3. The Local Government may appoint a person to be Registrar of Co-operative Societies for the Presidency of Madras or any portion of it, and may, by general or special order, confer on any other persons all or any of the powers of a Registrar under this Act.	3. No change.
Societies which may be registered.	4. Subject to the provisions of this Act a society which has as its object the promotion of the economic interests of its members in accordance with co-operative principles, or a society, established with the object of facilitating the operations of such a society, may be registered under this Act with or without limited liability. Provided that unless the Local Government by general or special order otherwise directs— (i) the liability of a society of which a member is a registered society shall be limited; and (ii) the liability of a society of which the primary object is the creation of funds to be lent to its members, and of which the majority of the members are agriculturists, and of which no member is a registered society, shall be unlimited and the members of such a society shall, on its liquidation, be jointly and severally liable for and in respect of all its obligations.	*Substitute* the following *for* the existing proviso:— "*Provided that*— (i) *the liability of a society of which a registered society is a member shall be limited*; (ii) *the liability of a society of which the primary object is the creation of funds to be lent to its members and of which the majority of the members are agriculturists and of which no member is a registered society shall also be limited.* *Provided further that the liability of any society of the description specified in clause* (ii) *of the foregoing proviso shall be unlimited, if the Registrar, having regard to local opinion and other circumstances, so direct; and in such a case, the members of the society shall on its winding up, be jointly and severally liable for and in respect of all its obligations.*" *Explanatory note.*—In view of our recommendation for the formation of multiple purpose societies with a wide area of operations, extending to more than one village and enlarged membership, it has been suggested (by a majority of us) that the liability of a village society should ordinarily be limited and that the Registrar might be empowered to register societies with unlimited liability if local opinion and other circumstances require it. The proviso has been accordingly recast.

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As existing.	Amendments recommended by the Committee.	
5. (1) Subject to the proviso to section 4 and to any rules made in this behalf, a registered society may, with the previous sanction of the Registrar, change its liability from limited to unlimited or from unlimited to limited : Provided that— (i) the society shall give notice in writing of its intention to change its liability to all its members and creditors ; (ii) any member or creditor shall, notwithstanding any by-law or contract to the contrary, have the option of withdrawing his shares, deposits or loans, as the case may be, within three months of the service of such notice on him and the change shall not take effect until all such claims have been satisfied ; and (iii) any member or creditor, who does not exercise his option within the period aforesaid, shall be deemed to have assented to the change. (2) Notwithstanding anything contained in the proviso to sub-section (1) the change shall take effect at once if all the members and creditors assent thereto.	5. (1) Subject to the proviso to section 4 and to any rules made in this behalf and with the previous sanction of the Registrar, a registered society may, *by a resolution passed by a majority of not less than three-fourths of the members present at a general meeting held for the purpose*, change its liability from limited to unlimited or from unlimited to limited : Provided that— (i) the society shall give notice in writing of *such resolution* to all its members and creditors ; (ii) & (iii) No change. *Explanatory note.*—The amendment is intended to prevent any important changes being carried only with a bare majority of members brought together for purposes of voting. A three-fourths majority is required. In clause (i) of the proviso, the word 'resolution' is substituted for 'intention' to make it clear that the notice is to be given only after the resolution has been passed.	Change of liability.
6. Where the liability of the members of a society is limited by shares, no member other than a registered society shall— (*a*) hold more than such portion of the share capital of the society, subject to a maximum of one-fifth, as may be prescribed by the rules ; or (*b*) have or claim any interest in the shares of the society, exceeding one thousand rupees.	6. No change. (*a*) No change. (*b*) have or claim any interest in the shares of the society, *exceeding in the case of a credit society one thousand rupees and in the case of a non-credit society, five thousand rupees.* *Explanatory note.*—Societies of the type of Vuyyur Industrial Society have to collect substantial sums of money as share capital. The existing limit of Rs. 1,000 is not suitable in such cases and hence a higher limit is suggested. A limit of Rs. 10,000 is permitted by the Bombay Co-operative Societies Act in respect of house building societies.	Restrictions on interest of member of society with limited liability and a share capital.
7. (1) No society, other than a society of which a member is a registered society, shall be registered under this Act which does not consist of at least ten persons who have attained the age of majority and, where the object of the society is the creation of funds to be lent to its members unless such persons— (*a*) reside in the same town or village or in the same group of villages ; or (*b*) save where the Registrar otherwise directs, are members of the same (tribe), class, (caste) or occupation.	7. (1) No change. (*a*) reside in the same town or village or in the same group of villages or *own immovable property therein* : or (*b*) save where the Registrar otherwise directs, are members of the same *class or occupation.*	Conditions of registration.

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	As existing.	Amendments recommended byth Committee.
	(2) The word "limited" shall be the last word in the name of every society with limited liability registered under this Act.	(2) No change.
		Explanatory note.—(*a*) In view of our recommendation to widen the area of operation of village societies and to substitute limited for unlimited liability as a rule and in view of the practical difficulties experienced to define "residence," we consider it necessary to remove the restriction as to residence in the area of operation of persons joining a society. (*b*) Caste and tribal distinctions seem undesirable and unco-operative. We have, therefore, deleted the words "(tribe)", and "(caste)."
Power of Registrar to decide certain questions.	8. When any question arises whether for the purposes of this Act a person is an agriculturist, or a non-agriculturist, or whether any person is a resident in a town or village or group of villages, or whether two or more villages shall be considered to form a group, or whether any person belongs to any particular tribe, class, caste or occupation, the question shall be decided by the Registrar, whose decision shall be final.	*Omit* the words "*tribe*" and "*caste*" and *add* the following at the end of the section :— "*and shall not be called in question in any civil court.*" *Explanatory note.*—The jurisdiction of the civil court is specifically barred. This is necessary in order to avoid deadlocks in the affairs of a society resulting from the intervention of the civil courts and the whole object of the Act is to prevent such intervention. The words "tribe" and "caste" are omitted to bring the section in conformity with section 7 (1) (*b*) as amended.
Application for registration.	9. (1) For purposes of registration an application to register shall be made to the Registrar. (2) The application shall be signed— (*a*) In the case of a society of which no member is a registered society, by at least ten persons qualified in accordance with the requirements of sub-section (1) of section 7 ; and (*b*) In the case of a society, of which a member is a registered society, by a duly authorized person on behalf of every such registered society, and, where all the members of the society are not registered societies, by ten other members or, when there are less then ten other members, by all of them. (3) The application shall be accompanied by a copy of the proposed by-laws of the society, and the persons by whom or on whose behalf such application is made shall furnish such information in regard to the society as the Registrar may require.	9. No change.

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As existing.	Amendments recommended by the Committee.	
10. If the Registrar is satisfied that a society has complied with the provisions of this Act and the rules and that its proposed by-laws are not contrary to this Act or to the rules, he may register the society and its by-laws. In case of refusal, an appeal shall lie to the Local Government within two months from the date of the issue of the order or refusal by registered post.	10. (1) If the Registrar is satisfied that a society has complied with the provisions of this Act and the rules and that its proposed by-laws are not contrary to this Act or to the rules, *he shall register the society and its by-laws, unless for reasons to be recorded by him, he refuses to register them. In case of refusal of registration, a copy of the order refusing registration shall be delivered to the applicants or sent to them by registered post.* (2) *Against an order of refusal of registration, an appeal shall lie to the Local Government within two months from the date of delivery thereof or its issue by registered post as the case may be.* (3) *No order passed by the Registrar under sub-section* (1) *and no order passed by the Local Government on an appeal preferred under sub-section* (2) *shall be called in question in any civil court.* *Explanatory note—Section* 10.—The existing section does not provide for reasons being given by the Registrar in cases where he declines to register a society and the discretion vested in him to refuse registration is too wide. Where the conditions laid down by the section are satisfied, the people of the area normally must have the right to get a society registered unless the Registrar for special reasons decides otherwise. The amendment provides for reasons to be given by him in case of such a refusal, so that in the appeal to the Government against the order, the Government will have the grounds of the decision for scrutiny and to satisfy itself that the order is based on proper grounds. Provision has also been made for an alternative mode of communication of orders to the party concerned and for shutting out the jurisdiction of civil courts in these matters.	Registration
11. A certificate of registration signed by the Registrar shall be conclusive evidence that the society therein mentioned is duly registered unless it is proved that the registration of the society has been cancelled.	11. No change.	Evidence of registration.
12. (1) No amendment of the by-laws of a registered society shall be valid until the same has been registered under this Act, for which purpose a copy of the amendment shall be forwarded to the Registrar. (2) If the Registrar is satisfied that any amendment of the by-laws is not contrary to this Act or to the rules, he may register the amendment. In case of refusal, an appeal shall lie to the Local Government within two months from the date of the issue of the order of refusal by registered post.	12. (1) No change. (2) (i) If the Registrar is satisfied that any amendment of the by-laws is not contrary to this Act or to the rules, *he shall register the amendment, unless for reasons to be recorded by him he refuses to register them. In case of refusal of registration a copy of the order refusing registration shall be delivered to the applicants or sent to them by registered post.*	Amendment of the by-laws of registered society.

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As existing.	Amendments recommended by the Committee.
	(ii) *Against an order of refusal of registration, an appeal shall lie to the Local Government within two months from the date of delivery thereof or its issue by registered post as the case may be.* (iii) *No order passed by the Registrar under clause* (i) *of this sub-section and no order passed by the Local Government on an appeal preferred under clause* (ii) *of this sub-section shall be called in question in any civil court.*
(3) When the Registrar registers an amendment of the by-laws of a registered society, he shall issue to the society a copy of the amendment certified by him, which shall be conclusive evidence that the same is duly registered.	(3) No change.
	Explanatory note.—See note under section 10. What applies to registration of original by-laws applies to amendments thereof.
Division and amalgamation of societies. 13. (*a*) (1) Any registered society may, at a meeting of its general body specially called for the purpose of which at least seven clear days' notice shall be given to its members, resolve to divide itself into two or more societies. The resolution (hereinafter in this sub-section referred to as the preliminary resolution) shall contain proposals for the division of the assets and liabilities of the society among the new societies into which it is proposed to divide it and may prescribe the area of operations of, and specify the members who will constitute, each of the new societies.	13. (*a*) (1) No change.
(2) (i) A copy of the preliminary resolution shall be sent to all the members and creditors of the society. (ii) Any member of the society may, notwithstanding any by-law to the contrary, by notice given to the society within a period of three months from his receipt of the preliminary resolution, intimate his intention not to become a member of any of the new societies. (iii) Any creditor of the society may, notwithstanding any agreement to the contrary, by notice given to the society within the said period, intimate his intention to demand a return of the amount due to him.	(2) No change.
(3) After the expiry of three months from the receipt of the preliminary resolution by all the members and creditors of the society, a meeting of the general body of the society, of which at least fifteen clear days' notice shall be given to its members, shall be convened for considering the preliminary resolution. If at such meeting, the preliminary resolution is confirmed by a resolution passed by a majority (of not less than two-thirds of the members present) either without changes or with	(3) After the expiry of three months from the receipt of the preliminary resolution by all the members and creditors of the society, a meeting of the general body of the society, of which at least fifteen clear days' notice shall be given to its members, shall be convened for considering the preliminary resolution. If, at such meeting, the preliminary resolution is confirmed by a resolution passed *by a majority of the members on the rolls of the society* either without changes or with such

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As existing.	Amendments recommended by the Committee.
such changes as, in the opinion of the Registrar, are not material, he may, subject to the provisions of clause (5) and section 10, register the new societies and the by-laws thereof. On such registration the registration of the old society shall be deemed to have been cancelled.	changes as, in the opinion of the Registrar, are not material, he may, subject to the provisions of clause (5) and section 10, register the new societies and the by-laws thereof. On such registration the registration of the old society shall be deemed to have been cancelled. *In the case of a financing bank the majority referred to shall be a majority of the affiliated societies.*
The opinion of the Registrar as to whether the changes made in the preliminary resolution are or are not material shall be final and no appeal shall lie therefrom.	*Against the opinion of the Registrar as to whether a particular change is material or not, an appeal shall lie to the Local Government. Neither the opinion of the Registrar nor the order of the Local Government on appeal, shall be liable to be called in question in any civil court.*
(4) At the meeting referred to in clause (3) provision shall be made by another resolution for (i) the repayment of the share capital of all the members who have given notice under sub-clause (ii) of clause (2); and (ii) the satisfaction of the claims of all the creditors who have given notice under sub-clause (iii) of clause (2): Provided that no member or creditor shall be entitled to such repayment or satisfaction until the preliminary resolution is confirmed as provided in clause (3).	(4) No change.
(5) If, within such time as the Registrar considers reasonable, the share capital of the members referred to in clause (4) is not repaid or the claims of the creditors referred to in that clause are not satisfied, the Registrar may refuse to register the new societies.	(5) No change.
(6) The registration of the new societies shall be a sufficient conveyance to vest the assets and liabilities of the original society in the new societies in the manner specified in the preliminary resolution as confirmed under clause (3).	*Substitute* the following *for* the existing sub-section (6):— (6) The registration of new societies shall be a sufficient conveyance to vest the assets and liabilities of the original society in the new societies in the manner specified in the preliminary resolution as confirmed under clause (3), *and on such registration, the creditors of the original society who have not under sub-clause* (iii) *of clause* (2) *intimated their intention to demand a return of the amounts due to them, shall become creditors of the society to whom the liability in respect of the debts has been assigned and the liability of the original society in respect of such debts shall cease.* *Add* the following new sub-sections (7) and (8):— "(7) *If by reasons of the transference of the area of operations of any registered society from one district to another or from one province to another it*

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As existing.	Amendments recommended by the Committee.
	becomes necessary to divide the society into two or more societies, the Registrar shall call upon the society to hold a meeting within a date to be named by him and the said society shall follow the procedure laid down in section 13 (*a*).
	"*If the members fail to arrive at an agreement in the matter of the division of the assets and liabilities of the society, the Registrar shall appoint a tribunal of not more than three persons of whom one shall be the representative of the financing bank, to effect a division of the assets and liabilities of the society.*"
	"8. (i) *If any portion of the area of operations of a financing bank is for administrative or other reasons transferred to that of another financing bank, the two banks may, by resolutions passed at the meetings of their respective general bodies, agree to a division between them of the assets and reserve fund of the bank from which a portion of the area is so transferred and the manner of such division. The agreement shall be given effect to by the Registrar.*
	(ii) *If the banks do not so agree, the Registrar shall decide whether or not a division of the said assets and reserve fund shall be made between them and in cases he decides in favour of a division, he may either*
	himself determine the manner of division of such assets and reserve fund, or
	appoint a tribunal consisting of a representative of each of the banks and a third person nominated by him to decide all points in dispute between the two banks in respect of such division. The decision under this sub-clause of the Registrar or of the tribunal as the case may be shall be final and not liable to be disputed in a civil court.
	(iii) *In a division of the assets and reserve fund under sub-clause* (ii), *the bank to which the transfer of an area is made shall be entitled to the face value of the shares held and reserve fund invested by the societies in the area so transferred as well as of the shares held by individuals resident in such area* :
	Provided that any individual share-holder resident in the area so transferred may ask for and obtain a return of the share capital due to him."
(*b*) (1) Two or more registered societies may, at meetings of their respective general bodies specially called for the purpose of which at least seven clear days' notice shall be given to their respective members, resolve to amalgamate into one society. This resolution is hereinafter in this sub-section referred to as the preliminary resolution.	(*b*) (1) No change.

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As existing.	Amendments recommended by the Committee.
(2) (i) A copy of the preliminary resolution of each society shall be sent to all the members and creditors thereof. (ii) Any member of any such society may, notwithstanding any by-law to the contrary, by notice given to the society of which he is a member within a period of three months from his receipt of the preliminary resolution, intimate his intention not to become a member of the new society. (iii) Any creditor of any such society may, notwithstanding any agreement to the contrary by notice given to the society of which he is a creditor within the said period, intimate his intention to demand a return of the amount due to him.	(2) No change.
(3) After the expiry of three months from the receipt of the preliminary resolution by all the members and creditors of all the societies, a joint meeting of the members of such societies of which at least fifteen clear days' notice shall be given to them, shall be convened for considering the preliminary resolution. If, at such meeting, the preliminary resolution is confirmed by a resolution passed by a majority of not less than two-thirds of the members present, either without changes or with such changes as, in the opinion of the Registrar, are not material, he may subject to the provisions of clause (5) and section 10, register the new society and the by-laws thereof. On such registration, the registration of the old societies shall be deemed to have been cancelled.	(3) *For* the words "by a majority . . . . . members present" occurring in the second sentence *substitute* the following "*by a majority of members on the rolls of the society.*"
The opinion of the Registrar as to whether the changes made in the preliminary resolution are or are not material shall be final and no appeal shall lie therefrom.	*For* the last sentence (sub-paragraph), *substitute* the following:— "*Against the opinion of the Registrar as to whether a particular change is material or not, an appeal shall lie to the Local Government. Neither the opinion of the Registrar nor the order of the Local Government on appeal, shall be liable to be called in question in any civil court.*"
(4) At the joint meeting referred to in clause (3), provision shall be made by another resolution for— (i) the repayment of the share capital of all the members who have given notice under sub-clause (ii) of clause (2); and (ii) the satisfaction of the claims of all creditors who have given notice under sub-clause (iii) of clause (2): Provided that no member or creditor shall be entitled to such repayment or satisfaction until the preliminary resolution is confirmed as provided in clause (3).	(4) No change.
(5) If, within such time as the Registrar considers reasonable, the share capital of the members referred to in clause (4) is not repaid or the claims of	(5) No change.

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As existing.	Amendments recommended by the Committee.
the creditors referred to in that clause are not satisfied, the Registrar may refuse to register the new society.	
(6) The registration of the new society shall be a sufficient conveyance to vest in it all the assets and liabilities of the original societies.	(6) No change.
	Explanatory note—Section 13 (3) *of* (*a*) *and* (*b*).—The amendments do away with the necessity for two-thirds of the members being present and voting at meetings and substitute a mere majority as a section of members may join together and abstain from voting at the meeting merely with the idea of frustrating the objects for which the resolution is sought to be passed, however good the resolution may be in the interests of majority of members. An appeal is provided for to the local Government against the ruling of the Registrar, as important interests are involved.
	13 (*a*) (6) Provides for the interests of the creditors being secured under the liabilities of the new society. It removes any uncertainty that there may be as against which new society the creditors have to proceed to enforce their rights.
	13 (*a*) (7) and (8). These are fresh sub-sections added for purposes not hitherto provided for.

RIGHTS AND LIABILITIES OF MEMBERS.

Member not to exercise rights till due payment made.	14. (1) No member of a registered society shall, save as otherwise provided in sub-section (2), exercise the rights of a member unless or until he has made such payment to the society in respect of membership or acquired such interest in the society as may be prescribed by the rules and by-laws.	14. (1) No change.
	(2) In the case of a society registered after the commencement of this Act, the persons who have signed the application to register the society may elect a committee to conduct the affairs of this society for a period of three months from the date of registration or for such further period as the Registrar may consider desirable :	(2) *After* the words "for such further period" *add* the words "*not exceeding three months.*"
	Provided that the committee shall cease to function as soon as the members of the society have elected a committee in accordance with its by-laws.	
		Explanatory note—Section 14 (2).—The addition of the words "not exceeding three months" limits the total period to six months, during which the original committee could function and after which period the society must elect a fresh committee as provided for in the by-laws.

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As existing.	Amendments recommended by the Committee.
15. (1) The committee may at any time call a general meeting of the society and shall call such a meeting within one month after receipt of a requisition in writing from the Registrar or from a financing bank to which the society is indebted or from such number of members or proportion of the total number of members as may be specified in the by-laws of the society.	*For* section 15, the following section shall be *substituted*, namely :—
	"15. (1) *The committee may at any time call a general meeting of the society.* General meetings.
(2) If a general meeting is not called in accordance with such requisition, the Registrar shall have power to call a general meeting of the society himself.	(2) (*a*) *The Committee shall call a general meeting of the society within one month of the date of a requisition in that behalf from—* (i) *such number of members or proportion of the total number of members as may be specified in the by-laws of the society; or* (ii) *the supervising union to which the society is affiliated; or* (iii) *the financing bank to which the society is indebted; or* (iv) *the Registrar.* (*b*) *The officer or officers in whom the power of calling meetings of the committee is vested, shall call a meeting of the committee within fifteen days of the date of a requisition in that behalf from—* (i) *such number of members or proportion of the total number of members of the committee as may be specified in the by-laws of the society; or* (ii) *the supervising union to which the society is affiliated; or* (iii) *the financing bank to which the society is indebted; or* (iv) *the Registrar.* (*c*) *The requisition referred to in clauses (a) and (b) must be in writing and signed by the requisitionists specifying the purpose for which the meeting is to be called, and be delivered in person or by registered post at the registered address of the society.* (3) *If the committee or the officer or officers of the society refuse or fail to call a meeting in accordance with a requisition under sub-section (2), or if there be no quorum at a meeting so convened, the Registrar shall call the meeting himself.* (4) *The following provisions shall apply in regard to every general or committee meeting called under sub-section (3) :—* (*a*) *The Registrar shall, notwithstanding any by-law prescribing the period of notice for the meeting, call the meeting in such manner and at such place and time as he may direct, and specify the matters which shall be discussed at the meeting.*

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As existing.	Amendments recommended by the Committee.
	(*b*) *The Registrar shall either preside at the meeting himself or authorize some other person by order in writing to preside at the meeting.*
	(*c*) *The meeting shall have all the powers of a meeting called under the by-laws of the society.*
	(*d*) *The Registrar or the person authorized by him to preside at the meeting shall have the power to conduct the meeting even though the number of persons present is less than the quorum prescribed for the meeting by the by-laws of the society ; and any resolution passed at the meeting shall be valid notwithstanding that there was no quorum, if the Registrar certifies that it was impossible to secure a quorum and that the resolution is in the interests of the society.*
	(*e*) *The Registrar shall have power to order that the expenses incurred in calling the meeting shall be paid out of the funds of the society or by such person or persons as in the opinion of the Registrar, were responsible for the refusal or failure to convene the meeting under sub-section* (2).
	(*f*) *No civil court shall have jurisdiction to entertain any suit or legal proceeding in respect of the exercise of any of the powers conferred by this section.*
	(5) *When the committee has for any reason ceased to function as such, the financing bank or the Registrar may call for a general meeting of the society for the purpose of reconstituting the committee.*
	Explanatory note.—The existing section gives power to the Registrar to convene only general body meetings. The power is now extended to convene Committee meetings and it is also provided that the Registrar or his nominee should preside over such meetings, that even if there be no quorum, the proceedings will be valid —(this provision already exists in the model by-laws)—that the costs incidental to such meetings should be recovered from the society or persons responsible for the refusal or failure to comply with the requisition and that no Civil Court shall take cognizance of any matter connected with such meetings. To resolve deadlocks that may arise in the fututre as they have arisen in the past (e.g., in the case of the Central Bank, Salem, or the Kumbakonam Bank), these provisions are essential.

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As existing.	Amendments recommended by the Committee.	
	The committees of many societies are found to be defunct, as panchayatdars owing to default lose their seats automatically under the rules. In such cases, there is no body on whom the duty of reconstituting a proper committee rests. Provision has now been made for the financing Bank or the Registrar to take action in such cases.	
16. (1) No member of any registered society shall have more than one vote in the affairs of the society provided that in the case of an equality of votes the Chairman shall have a casting vote.	16. (1) *Add* the following as an additional proviso under sub-section (1) :— "*Provided further that at elections held under the Act or the by-laws of the society a member may vote for as many candidates as there are seats to be filled and that in the event of an equality of votes among rival candidates at an election, the choice shall be made by casting lots.*"	Votes of members.
(2) A registered society which has invested any part of its funds in the shares of another registered society may appoint any of its members not disqualified for such appointment under any rules prescribed in that behalf to vote in the affairs of such other registered society.	(2) No change. *Add* the following new sub-section :— (3) *Save as provided in sub-section (2), no member of a registered society shall vote in the affairs thereof by proxy.*" *Explanatory note.*—The principle of "one member one vote" is not intended to apply to elections, as each member at an election votes for as many candidates as there are seats to be filled. Voting by proxy is un-co-operative. One of the Registrars' Conferences has suggested that it should be prohibited.	
17. (1) The transfer of the share or interest of a member in the capital of a registered society shall be subject to such conditions as to maximum holding as may be prescribed by this Act or by the rules.	17. (1) No change.	Restrictions on transfer of share or interest.
(2) In the case of a society registered with unlimited liability a member shall not transfer any share held by him or his interest in the capital of the society or any part thereof unless— (*a*) he has held such share or interest for not less than one year ; and (*b*) the transfer is made to the society or to a member of the society.	(2) No change. After sub-section (2) of section 17 the following sub-sections shall be added, namely :— "(3) *In the case of a society registered with limited liability other than a financing bank, a member shall not transfer any share held by him or his interest in the capital of the society or any part thereof except to another member of the society, or to a person whom the society is willing to admit as a member in accordance with its by-laws, or to the society itself, provided that the total amount transferred to the society in any one year does not exceed the limit prescribed by the by-laws of the society.* (4) *In the case of a financing bank, no member shall transfer any share held by him or his interest in the capital of the bank or any part thereof except to another member or to a person or registered society whom the bank is willing to admit as a member in accordance with its by-laws, provided that the bank shall buy its own shares from a member who is a registered society when the registration of such society is cancelled or*	

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As existing.	Amendments recommended by the Committee.
	when such society takes shares with the sanction of the Registrar in another financing bank." *Explanatory note.*—In the case of primary credit societies with limited liability, no society is permitted to refund more than one-tenth of its paid-up share capital in any one year. In the case of financing banks, the shares are not withdrawable but only transferable, but when an affiliated society is liquidated or when a bank is split up, the share capital held by a primary society is repaid to it. The new sub-sections regularize the practice now followed.
Duties of Registered Societies.	
Address of societies. 18. Every registered society shall have an address registered in accordance with the rules, to which all notices and communications may be sent, and shall send to the Registrar notice of every change thereof.	18. No change.
	Add the following new section after section 18 :— 18-A. *Every registered society shall maintain a register of its members and shall from time to time carry out therein all changes in its membership.*" *Explanatory note.*—This provides for an up-to-date register of its members being maintained, which is not done in several societies now. The failure to maintain this has led to election disputes.
Copy of Act, rules and by-laws to be open to inspection. 19. Every registered society shall keep a copy of this Act and of the rules governing such society and of its by-laws open to inspection free of charge at all reasonable times at the registered address of the society.	Between the words " by-laws " and, " open " *insert* the words " *as well as a register of its members.*" *Explanatory note.*—Please see note under section 18-A..
Privileges of Registered Societies.	
Societies to be bodies corporate. 20. The registration of a society shall render it a body corporate by the name under which it is registered, with perpetual succession and a common seal, and with power to hold property, to enter into contracts, to institute and defend suits and other legal proceedings and to do all things necessary for the purposes for which it was constituted.	20. No change.
Prior claim of society. 21. (1) Subject to the prior claim, if any, of the Government in respect of land revenue or any money recoverable as land revenue or of a landlord in respect of rent or any money recoverable as rent, a registered society shall be entitled in priority to other creditors to enforce any outstanding demand due to	For sub-section (1), the following sub-section shall be substituted :— " 21. (1) *Subject to the prior claim, if any, of the Crown in respect of land revenue or any money recoverable as land revenue or of a landlord in respect of rent or any money recoverable as rent any debt or*

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As existing.	Amendments recommended by the Committee.
the society from a member or past or deceased member—	*outstanding demand due to a registered society from any member or past member or the estate of a deceased member, shall be a first charge,*
(*a*) in respect of the supply of seed or manure or of the loan of money for the purchase of seed or manure upon the crops or other agricultural produce of such member or person at any time within eighteen months from the date of such supply or loan ;	*(a) if the debt or demand is due in respect of the supply of seed or manure or substances, appliances, or chemicals for the preservation of produce and prevention of disease of crops, or of the loan of money for the purchase of seed or manure or substances, appliances, or chemicals for the preservation of produce and prevention of disease of crops--upon the crops or other agricultural produce of such member or past member or belonging to the estate of such deceased member at any time within eighteen months from the date of such supply or loan ;*
(*b*) in respect of the supply of cattle, fodder for cattle, agricultural or industrial implements or machinery or raw materials for manufacture, or of the loan of money for the purchase of any of the foregoing things—upon any such things so supplied, or purchased, in whole or in part from any such loan, or on any articles manufactured from raw materials so supplied or purchased.	*(b) if the debt or demand is due in respect of the supply of cattle, fodder for cattle, agricultural or industrial implements or machinery or r materials for manufacture or of the loan of money for the purchase of any of the foregoing things—upon any such things so supplied or purchased in whole or in part from any such loan, or upon any articles manufactured from raw materials so supplied or purchased;*
	(c) if the debt or demand is due in respect of the supply of, or any loan for the purchase of warehouses or business premises, or workshops—upon the things supplied or purchased in whole or in part from any such loan and
	(d) if the debt or demand is due in respect of any loan for the purchase or redemption of land—upon the land purchased or redeemed in whole or in part from any such loan :
	Provided that nothing contained in this sub-section shall impair the rights of any purchaser or transferee of any of the things or articles referred to in clauses (a) to (d) for value, in good faith, and without notice of the existence of such debt or demand.
(2) The priority created by sub-section (1) in favour of a registered society shall be available against any claim of the Government arising from a loan granted under the Land Improvement Loans Act (XIX of 1883), after the grant of loan by the society.	In sub-section (2) for the word "priority" the word "*charge*" shall be substituted.

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As existing.	Amendments recommended by the Committee.
	Explanatory note.—The Townsend Committee on Co-operation, the Central Banking Enquiry Committee, the Twelfth Conference of Registrars of Co-operative Societies and the Reserve Bank of India have all recommended that the prior claim of a society under section 21 of the Act should be converted into a first charge. The amendment proposed gives effect to the recommendation as has already been done in the Bombay and Bihar and Orissa Acts. The amendment also provides for other credit requirements of the members of a society (in addition to seed, manure and cattle) being classed as productive credit for purposes of creating a charge in favour of the society.
Charge and set-off in respect of shares of interest of member. 22. A registered society shall have a charge upon the share or interest in the capital and on the deposits of a member or past or deceased member and upon any dividend, bonus or profits payable to a member or past member or the estate of a deceased member in respect of any debt due from such member or past member or the estate of such deceased member to the society, and may set off any sum credited or payable to a member or past or deceased member or the estate of a deceased member in or towards payment of any such debt.	The following proviso shall be added at the end, viz :— "*Provided that no financing bank shall have a charge upon* (i) *any sum invested with it by a registered society out of the provident fund established under section* 36-*A* ; or (ii) *any sum invested with it as reserve fund by a registered society of which such financing bank is not the sole creditor or be entitled to set off any such sum towards any debts due from such society.*" *Explanatory note.*—Immediately after the registration of a society is cancelled, a few Central Banks have been trying to adjust the reserve fund invested with them towards the debts due by it. The amendment is designed to forbid such adjustment of reserve fund which should be available for all creditors of the society. The amendment also provides protection to the Provident Fund instituted for the benefit of the employees of societies.
Shares or interest not liable to attachment. 23. Subject to the provisions of section 22, the share or interest of a member in the capital of a registered society shall not be liable to attachment or sale under any decree or order of a court of justice in respect of any debt or liability incurred by such member, and neither the Official Assignee under the Presidency Towns Insolvency Act (III of 1909), nor a Receiver under the Provincial Insolvency Act (II of 1920), shall be entitled to or have any claim on such share or interest.	23. Subject to the provisions of section 22, the share or interest of a member in the capital of a registered society *or contribution made by a member under section* 47 *or the share or interest of an employee in the provident fund established under section* 36-*A or such provident fund or the reserve fund of a registered society invested in accordance with the provisions of section* 34 shall not be liable to attachment or sale under any decree or order of a court of justice in respect of any debt or liability incurred by such member, employee or society and neither the Official Assignee under the Presidency Towns Insolvency Act, 1909, nor a Receiver under the Provincial Insolvency Act, 1920, shall be entitled to or have any claim on such share, interest, *contribution or fund.*

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As existing	Amendments recommended by the Committee.	
	Explanatory note.—This is consequential on new section 36-A so far as provident fund is concerned. As regards reserve fund and contribution the amendment is intended to prevent a single creditor of the society from taking them away without making them available to all the creditors alike.	
24. (1) Subject to the provisions of section 22, a registered society may, on the death of a member, transfer his share or interest in the capital to the person nominated in accordance with the rules made in this behalf, or, if there is no person so nominated, to such person as may appear to the committee to be the heir or legal representative of the deceased member, or pay to such nominee, heir or legal representative, as the case may be, a sum representing the value of such members' share or interest, as ascertained in accordance with the rules or by-laws:	24. (1) No change.	Transfer of interest on death of member.
Provided that—	Provided that—	
(i) in the case of a society with unlimited liability, such nominee, heir or legal representative, as the case may be, may require payment by the society of the value of the share or interest of the deceased member ascertained as aforesaid; and	(i) No change.	
(ii) in the case of a society with limited liability, the society shall transfer the share or interest of the deceased member to such nominee, heir, or legal representative, as the case may be, being qualified in accordance with the rules and by-laws for membership of the society, or on his application within *one month* of the death of the deceased member to any person specified in the application who is so qualified.	(ii) *for* "one month" *substitute* "*three months.*"	
(2) Subject as aforesaid, a registered society may pay all other moneys due to the deceased member from the society to such nominee, heir or legal representative, as the case may be.	(2) No change.	
(3) All transfers and payments made by a registered society in accordance with the provisions of this section shall be valid and effectual against any demand made upon the society by any other person.	(3) No change.	
	Explanatory note.—The period of one month is considered to be too short.	
25. The liability of a past member or of the estate of a deceased member for the debts of a registered society as they existed on the date of his ceasing to be a member or of decease, as the case may be, shall continue for a period of two years from such date.	*Add* the following at the end of the section :— "*If before the expiry of two years aforesaid an order for the winding up of the society has been issued, the liability of such past member or of the estate of the deceased member to the debts of the society shall continue till the registration of the society is cancelled under sub-section (2) of section 47-B.*"	Liability of past member or of the estate of a deceased member.

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As existing.	Amendments recommended by the Committee.
	Explanatory note.—This makes it clear that the object of the section is to provide a condition or period of time for the emerging of the liability and not for its enforcement. There should be no limitation for enforcing the liability.
Register of members. 26. Any register or list of members or shares kept by any registered society shall be *prima facie* evidence of any of the following particulars entered therein:— (*a*) the date on which the name of any person was entered in such register or list as a member; and (*b*) the date on which any such person ceased to be a member.	26. No change.
Proof of entries in societies' books. 27. (1) A copy of any entry in a book of a registered society regularly kept in the course of business shall, if certified in such manner as may be prescribed by the rules, be received in any suit or legal proceedings as *prima facie* evidence of the existence of such entry, and shall be admitted as evidence of the matters, transactions and accounts therein recorded in every case where, and to the same extent as, the original entry itself is admissible. (2) No officer or liquidator of a registered society and no officer in whose office the books of a registered society are deposited after liquidation shall, in any legal proceedings to which the society or the liquidator is not a party, be compelled to produce any of the society's books the contents of which can be proved under sub-section (1), or to appear as a witness to prove the matters, transactions and accounts therein recorded, unless by order of the court or the arbitrator made for special cause.	27. No change.
* 28. Omitted by Madras Act V of 1935.	
Exemption from compulsory registration of instruments relating to shares and debentures of registered society. 29. Nothing in clauses (*b*) and (*c*) of sub-section (1) of section 17 of the Indian Registration Act (XVI of 1908) shall apply to— (1) any instrument relating to shares in a registered society, notwithstanding that the assets of such society consist in whole or in part of immovable property; or (2) any debenture issued by any such society and not creating, declaring, assigning, limiting or extinguishing any right, title or interest to or in immovable property except in so far as it entitles the holder to the security afforded by a registered instrument whereby the society has mortgaged, conveyed or otherwise transferred the whole or part of its immovable property or any interest therein to trustees upon trust for the benefit of the holders of such debentures; or	29. No change.

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As existing.	Amend ments recommended by the Committee.	
(3) any endorsement upon or transfer of any debenture issued by any such society.		
* 29-A. Where under this Act or any rule made thereunder, any sum due to a registered society from any person is recoverable as an arrear of land revenue and the immovable property of such person is brought to sale under the provisions of the Madras Revenue Recovery Act (II of 1864), and the society is the purchaser at such sale, the provisions of section 36 of the said Act shall apply thereto as if for the third and fourth clauses thereof the following clauses were substituted, namely :—	29-A. No change.	Right to set off where a registered society purchases immovable property at a sale under Madras Act II of 1864 for any sum due to it.
"Third—The sum due to the purchaser shall be set off, in whole or in part, against the purchase money and the remainder, if any, of the purchase money shall be paid to the Collector or other officer empowered by the Collector in that behalf within thirty days of the date of sale.		
"Fourth—Where the purchaser refuses or omits to complete the payment of the remainder, if any, of the purchase money, the property shall be re-sold at the expense and hazard of such purchaser and the amount of all loss or expense which may attend such refusal or omission shall be recoverable from such purchaser in the same manner as arrears of public revenue. Where the property, on the second sale, sells for a higher price than at the first sale, the difference or increase shall be the property of him on whose account the said first sale was made."		
30. (1) The Governor-General in Council by notification in the *Gazette of India* may, in the case of any registered society or class of registered societies, remit the income tax payable in respect of the profits of the society, or of the dividends or other payments received by the members of the society on account of profits.	In clause (*a*) of sub-section (2) of section 30, *for* the words "or arbitrators" the words "*arbitrators or liquidators*" shall be substituted.	Power to exempt from income-tax, stamp duty and registration fees.
(2) The Local Government, by notification in the *Fort St. George Gazette*, may in the case of any registered society or class of registered societies remit—		
(*a*) the stamp duty with which, under any law for the time being in force, instruments executed by or on behalf of a registered society or by an officer or member and relating to the business of such society or any class of such instruments or decisions, awards or orders of the Registrar or arbitrators under this Act are respectively chargeable; and		
(*b*) any fee payable under the law of registration for the time being in force.		

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	As existing.	Amendments recommended by the Committee.
		Explanatory note.—This legalizes the exemption from stamp-duty of the contribution orders passed by liquidators under section 47 of the Act, which according to existing practice and on administrative and general grounds are not charged with any stamp-duty.
Government aid to registered societies.	31. Notwithstanding anything contained in any other enactment, the Local Government may, subject to such rules as may be prescribed in this behalf, grant loans to, take shares in, or give financial assistance in any other form to any registered society.	31. *Add* the following after the words "take shares in":— "*guarantee payment of principal and interest* or *interest alone on debentures issued by the society.*" *Explanatory note.*—The provision for guarantee to be given by Government is introduced, as it is now recognized that co-operative societies might approach Local Government for such guarantee, wherever it is found necessary in the interests of the movement. It is an enabling provision.
	PROPERTY AND FUNDS OF REGISTERED SOCIETIES.	
Restrictions on loans.	32. (1) A registered society shall not make a loan to any person other than a member: Provided that, with the general or special sanction of the Registrar, a registered society may make loans to another registered society. (2) Save with the sanction of the Registrar, a registered society shall not lend money on the security of movable property other than agricultural produce. (3) Notwithstanding anything contained in sub-sections (1) and (2), a registered society may make a loan to a depositor on the security of his deposit. (4) The Local Government may, by general or special order, prohibit or restrict the lending of money on mortgage of immovable property by any registered society or class of registered societies.	32. No change.
Restrictions on borrowings.	33. A registered society shall receive deposits and loans only to such extent and under such conditions as may be prescribed by the rules or the by-laws of the society.	33. No change.
Investment of funds.	34. (1) Subject to the provisions of sub-section (4) of section 32, a registered society may invest or deposit its funds— (*a*) in the Government Savings Bank, or (*b*) in any of the securities specified in section 20 of the Indian Trusts Act (II of 1882), or (*c*) in the shares or securities of any other registered society, provided that no such investment shall be made in the shares of any society with unlimited liability, or (*d*) with any bank or person carrying on the business of banking, approved for this purpose by the Registrar, or (*e*) in any other mode permitted by the rules.	*For* sub-section (1) of section 34, the following sub-section shall be substituted, namely:— "(1) *Subject to the provisions of sub-section* (4) *of section* 32, *a registered society may invest or deposit its funds or a portion thereof*— (*a*) *in the Government Savings Bank, or* (*b*) *in any of the securities specified in section* 20 *of the Indian Trusts Act,* 1882, *or* (*c*) *in any shares, bonds or debentures issued by any other registered society, with limited liability, or* (*d*) *with the previous sanction of the Registrar, in the shares of the Reserve Bank of India constituted under the Reserve Bank of India Act,* 1934, *or*

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As existing.	Amendments recommended by the Committee.
(2) Any investments or deposits made before the commencement of this Act which would have been valid if this Act had been in force are hereby ratified and confirmed.	(e) *in approved securities of the Indian States or in such other securities of the Indian States as the Provincial Government may approve for the purpose of this section.* (f) *with the general or special sanction of the Registrar with any other registered society with limited liability, or* (g) *with the previous sanction of the Registrar, with any other society with limited liability, the headquarters of which are situated outside the Presidency of Madras and which is registered under the Co-operative Societies Act, 1912, or any other law for the time being in force in British India relating to co-operative societies, or* (h) *with any bank or person carrying on the business of banking, approved for this purpose by the Registrar, or* (i) *in any other mode permitted by the rules.*" *Explanatory note.*—The scope of clause (c) of the existing section is enlarged so as to permit investment in bonds or debentures issued by a registered society with limited liability. The amendment also provides for investment in the shares of the Reserve Bank of India and for depositing funds in another registered society situate in this Presidency or outside with the Registrar's permission, and also in all securities approved by the Government including those of Indian States.
35. No part of the funds of a registered society shall be divided by way of bonus or dividend or otherwise among its members: Provided that payment may be made to a member for work done by him as Secretary or as clerk on such scale as may be prescribed by the by-laws: Provided also that after at least one-fourth of the net profits in any year have been carried to a reserve fund, payments from the remainder of such profits and from any profits of past years available for distribution may be made— (i) as a bonus to a member for any specific service rendered by him to the society including work done as Secretary or as clerk, and (ii) among the members to such extent and under such conditions as may be prescribed by the rules or by-laws.	35. No change.	Funds not to be divided among members.
	After section 35, the following section shall be inserted, namely:— "35-A. *A registered society with limited liability shall not have power*— (i) *to buy its own shares except in the cases referred to in sections* 17 *and* 24; *or*	

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	As existing.	Amendments recommended by the Committee.
		(ii) *to extinguish or reduce the liability in respect of any of its shares or to cancel or pay off any portion of its paid-up share capital,* *except with the previous permission of the Registrar in accordance with the rules prescribed in that behalf.* *Explanatory note.*—There are a few cases in which societies are over-capitalized and the need for reduction of share capital is keenly felt. The amendment provides for reduction of share capital in such cases leaving the procedural details to the rules to be framed under the section.
Contribution to charitable purpose.	36. Any registered society may, after one-fourth of the net profits in any year has been carried to a reserve fund, contribute an amount not exceeding 10 per cent of the remaining net profits to any charitable purpose as defined in section 2 of the Charitable Endowments Act (VI of 1890).	36. *Add* the following at the end :— " *or to any purpose likely to advance the Co-operative movement or help its progress.*" *Explanatory note.*—The addition of the words " or to purpose likely to advance the co-operative movement or help its progress " is with a view to widen the scope of the beneficial purpose of this section. The provisions of the Charitable Endowment Act, 1890, are too limited and antiquated to suit the activities of the co-operative organizations of the present day.
		After section 36, the following section shall be inserted, namely :— " 36-A. (1) *Any registered society may, and every financing bank shall, establish a provident fund for its employees into which shall be paid the contributions made by the employees and by the society or the financing bank as the case may be in accordance with the by-laws made by such society or financing bank in that behalf.* (2) *Such provident fund shall not be used in the business of the society but shall be invested in accordance with the provisions of section* 34." *Explanatory note.*—The object of the amendment is to make the institution of provident fund for employees compulsory in the case of central banks and to give protection to the fund.
Audit.	37. (1) The Registrar shall audit or cause to be audited by some person authorized by him by general or special order in writing in this behalf the accounts of every registered society once at least in every year. (2) The audit under sub-section (1) hall include an examination of overdue .ebts, if any, the verification of the cash balance and securities and a valuation of the assets and liabilities of the society. (3) The Registrar or the person authorized by him under sub-section (1) shall, at all reasonable times, have free access to the books, accounts, documents,	*Delete* the words " at any place . . . branch thereof " in sub-section (3) and *substitute the following* :— " *at the office of the society or if the accounts relate to a branch, at the office of the branch.*" *Explanatory note.*—The amendment is intended to enforce the checking and verification of accounts being done in the premises of the society, so that the books of accounts may not be ordered to be carried to a place where the inspecting officer may be camping.

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As existing.	Amendments recommended by the Committee.
securities, cash and other properties belonging to or in the custody of the society and may summon any person in possession or responsible for the custody of any such books, accounts, documents, securities, cash or other properties to produce the same at any place at the headquarters of the society or any branch thereof.	
(4) Every officer or member of the society shall furnish such information in regard to the transactions and working of the society as the Registrar or the person authorized by him under sub-section (1) may require.	..

INQUIRY AND INSPECTION.

38. (1) The Registrar may of his own motion and shall on the request of the Collector, or on the application of a majority of the committee or of not less than one-third of the members, hold an inquiry, or direct some person authorized by him by order in writing in this behalf to hold an inquiry into the constitution, working and financial condition of a registered society.

(2) The Registrar or the person authorized by him under sub-section (1) shall have the following powers, namely :—

(*a*) He shall, at all reasonable times, have free access to the books, accounts, documents, securities, cash and other properties belonging to or in the custody of the society and may summon any person in possession or responsible for the custody of any such books, accounts, documents, securities, cash or other properties to produce the same at any place at the headquarters of the society or any branch thereof.

(*b*) He may summon any person who he has reason to believe has knowledge of any of the affairs of the society to appear before him at any place at the headquarters of the society or any branch thereof and may examine such person on oath.

(*c*) (i) He may, notwithstanding any rule or by-law prescribing the period of notice for a general meeting of the society, require the officers of the society to call a general meeting at such time and place at the headquarters of the society or any branch thereof and to determine such matters as may be directed by him. If the officers of the society refuse or fail to call such a meeting, he shall have power to call it himself.

(ii) Any meeting called under clause (i) shall have all the powers of a (general) meeting called under the by-laws of the society and its proceedings shall be regulated by such by-laws.

Inquiry by Registrar.

(1) In sub-section (1) after the words "on the request of the Collector" *add* the words "*or on the request of the financing bank.*"

(2) In clause (*a*) of sub-section (2), *insert* the words "*and during office hours*" between the words "at all reasonable times" and "have free access."

(3) In clauses (*a*) and (*b*) of sub-section (2) *omit* the words "at any place . . . branch thereof," and *substitute* the following :—

"*at the office of the society or if the accounts relate to a branch, at the office of the branch.*"

(4) For clause (*c*) (i) of sub-section (2), the following clause shall be substituted, namely :—

"(*c*) (i) *He may, notwithstanding any by-law prescribing the period of notice for a general or committee meeting of the society, require the officers of the society to call a general or committee meeting at such time and place at the headquarters of the society or any branch thereof and to determine such matters as may be directed by him.*

(5) *Omit* the word 'general' occurring in clause (*c*) (ii) of sub-section (2).

(6) For clause (*c*) (iii) of sub-section (2) *substitute*: the following :—

(iii) *If the officer or officers of the society refuse or fail to call such a meeting, the Registrar shall call the meeting himself and all the provisions of sub-section* (4) *of section* 15 *shall apply to such meeting as if it were a meeting called under sub-section* (3) *of that section.*"

(7) In sub-section (3) *omit* the words "is indebted" at the end, and *substitute* "*is affiliated and also to the society concerned.*"

Explanatory note.—The amendment provides for the financing bank also being included among those who may ask of the Registrar for "an enquiry" into the affairs of the society financed by the bank.

(2) (*a*) and (*b*) See notes under sect... 37 (3).

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As existing.	Amendments recommended by the Committee.
(3) When an inquiry is made under this section, the Registrar shall communicate the result of the inquiry to the financing bank, if any, to which the society is indebted.	(c) It is proposed that the Registrar or the person authorized by him in this behalf should have power to require the officers of the society to call also a committee meeting and that where in the case of their failure or refusal to call a general or committee meeting, he is obliged to call the meeting himself, the provisions of sub-section (4) of new section 15 should apply to such meeting. (3) The substitution of the word "affiliated" for "indebted" in the existing section and the addition of the words "and also to the society concerned" provides for cases where the society may be affiliated to the financing bank without its being actually indebted to it at that time. It also provides for the result of the enquiry being communicated to the concerned society itself for which the section does not provide now.
Inspection of books by Registrar. 39. (1) The Registrar may, on the application of a creditor of a registered society, inspect or direct some person authorized by him in this behalf by a general or special order in writing to inspect the books of the society and the Registrar or the person so authorized shall have all the powers of the Registrar when holding an inquiry under section 38. (2) No inspection shall be made or directed under sub-section (1) unless the creditor— (*a*) satisfies the Registrar that the debt is a sum then due, and that he has demanded payment thereof and has not received satisfaction within a reasonable time; and (*b*) deposits with the Registrar such sum as security for the costs of the proposed inspection as the Registrar may require. (3) Where an inspection is made under sub-section (1), the Registrar shall communicate the results of such inspection to the creditor and to the financing bank, if any, to which the society is indebted.	39. In sub-section (1) *add* the words "*of his own motion or*" after the words "The Registrar may." In sub-section (2) between the words "No inspection" and "shall be made" insert the words "*demanded by a party.*" In sub-section (3) *delete* the word "indebted" at the end and *substitute* "affiliated." *Add* the following as sub-section (4) after sub-section (3):— "39. (4) *If on an inspection made under sub-section* (1), *or any further enquiry which may be made, it is found that the whole or part of a debt is due by the society to the creditor and that the society is not in a position to satisfy the creditor within a month, the Registrar may pass an award for the amount due, in favour of the creditor, and thereupon the said creditor may proceed to recover the amount against the society in accordance with the provisions of the Act.*" *Explanatory note—Sub-section* (1).—The addition of the words "of his own motion" provides for the Registrar to cause an enquiry without being called upon to do so by any other person or society. *Sub-section* (4).—This new sub-section provides for the action to be taken as a result of his inspection and enquiry, as the existing section does not provide for action that should follow the inspection.
Inspection of books by financing bank. 40. A financing bank shall have the right to inspect the books of any registered society which is indebted to it. The inspection may be made either by an officer of the financing bank or by a member of its paid staff certified by the Registrar as competent to undertake such inspection. The officer or member so inspecting shall at all reasonable times	In section 40 of the Act, for the second sentence, the following sentence shall be substituted, namely:— "*The inspection may be made either—* (*a*) *by an honorary officer of the financing bank*, or (*b*) *by a member of its paid staff certified by the Registrar to be competent to undertake such inspection or.*

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As existing.	Amendments recommended by the Committee.	
have free access to the books, accounts, documents, securities, cash and other properties belonging to or in the custody of the society and may also call for such information, statements and returns as may be necessary to ascertain the financial condition of the society and the safety of the sums lent to it by the financing bank.	(c) *by a member of the paid staff deputed for the purpose by a general or special resolution of the committee of the bank.*" *Explanatory note.*—Under the existing law, a paid Secretary, being an officer of the society, need not have the prescribed qualifications. The intention, however, is that only honorary officers should be exempt from any qualifications but that all paid employees should be qualified. The amendment makes the intention of the section clear. Where a member of the subordinate staff of the financing bank is deputed for inspection, it is provided that such person must be authorized to do so by a general or special resolution of the committee of the bank. There is no need for a certificate from the Registrar.	
	Add the following new section after section 40 :— 40-*A. For purposes of sections* 37, 38, 39 *and* 40, *in cases where a registered society does not observe fixed office hours, the Registrar or the person authorized may fix any hour which may be convenient.* *Explanatory note.*—Provision is made for the Registrar or the person authorized by him to fix a convenient hour for audit, inspection or enquiry as the case may be, in cases where the societies do not have any fixed office hours.	
41. Where an inquiry is held under section 38 or an inspection is made under section 39, the Registrar may, after giving the parties an opportunity to be heard, apportion the costs, or such part of the costs as he may think right, between the society, the members or creditor demanding an inquiry or inspection, the officers or former officers of the society. Costs may also be awarded by the Registrar to the financing bank in the case of inspection under section 40, by the financing bank.	(1) In the first sentence between the words "to be heard" and "apportion the costs," *insert* the words "*by order in writing stating grounds.*" In the same sentence *delete* the word "right" and *substitute* "*proper.*" (2) *Add* the following at the end of the section :— "*Any person aggrieved by such an order, if passed by an officer subordinate to the Registrar, may appeal to the Registrar within three months from the date of communication of the said order, whose decision thereon shall be final; in cases where the order is passed by the Registrar himself, any person aggrieved by such order may appeal to the Government within three months from the date of the communication of the order and its decision thereon shall be final.*" *Explanatory note.*—The amendment provides for appeal which is not found in the existing section. Provision has also been made for stating the reasons in writing where costs are apportioned as between the parties.	Costs of enquiry and inspection.
42. Any sum awarded by way of costs under section 41 may be recovered as if it were an arrear of land revenue.	42. No change.	Recovery of costs.

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As existing.	Amendments recommended by the Committee.

SUPERSESSION OF COMMITTEE OF SOCIETY.

Supersession of Committee.

43. (1) If, in the opinion of the Registrar, the committee of any registered society is not functioning properly, he may, after giving an opportunity to the committee to state its objections, if any, by order in writing dissolve the committee and appoint a suitable person or persons to manage the affairs of the society for a specified period not exceeding two years. The period specified in such order may, at the discretion of the Registrar, be extended from time to time provided that such order shall not remain in force for more than four years in the aggregate.

(2) The person or persons so appointed shall, subject to the control of the Registrar and to such instructions as he may from time to time give, have power to exercise all or any of the functions of the committee or of any officer of the society, and to take all such action as may be required in the interest of the society.

(3) The Registrar may fix the remuneration payable to the persons or person so appointed. The amount of such remuneration and the other costs, if any, incurred in the management of the society, shall be payable from its funds.

(4) The person or persons so appointed shall, at the expiry of the period of his or their appointment, arrange for the constitution of a new committee in accordance with the by-laws of the society.

(5) Before taking any action under sub-section (1) in respect of a financing bank, or in respect of society indebted to a financing bank, the Registrar shall consult in the former case the Madras Provincial Co-operative Bank, and in the latter case the financing bank concerned, regarding such action.

(6) Nothing in this section shall be deemed to affect the power of the Registrar to cancel the registration of the society under section 44.

For sub-section (1) *substitute* the following:—

"43. (1) *If, in the opinion of the Registrar, the Committee of any registered society is not functioning properly, he may, after giving an opportunity to the committee to state its objections, if any, and after considering the objections raised, convene a general meeting of its members and give them an opportunity to carry out, within such time as may be fixed by him, such change or changes in its management or such reforms in its working as he may consider necessary in its interests. If the members fail to carry out such changes or reforms, the Registrar may, by order in writing, dissolve the committee and appoint a suitable person or persons to manage the affairs of the society for a period not exceeding two years. The period specified in such order may, at the discretion of the Registrar, be extended from time to time provided that such order shall not remain in force for more than four years in the aggregate.*"

For sub-section (5) *substitute* the following:—

"(5) *Before taking any action under sub-section* (1) *in respect of any society, the Registrar shall—*

if the society is indebted to a financing bank, obtain the previous concurrence of such bank, or

if the society is a financing bank obtain the previous concurrence of the Madras Provincial Co-operative Bank, regarding such action and the provision to be made for the management of the affairs of the society or bank."

Renumber sub-section (6) as (8) and *add* the following as sub-sections (6) and (7):—

"(6) *In special cases including cases where there is a difference of opinion between the Registrar and the financing bank or the Madras Provincial Co-operative Bank, as the case may be, the Registrar may, however, for reasons to be recorded in writing, dispense with the procedure laid down in sub-sections* (1) *and* (5).

(7) *Any member of a committee of the society may, within one month from the date or order passed by the Registrar under sub-section* (1), *appeal from such order to the Government. The order of the Government on appeal, and subject to the result of such appeal, if any, the order of the Registrar shall be final.*"

Add the following as sub-section (9):—

"(9) *No action of the Registrar done in the exercise of the powers conferred under this section and no action of any*

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As existing.	Amendments recommended by the Committee.
	person appointed by him under this section to manage the affairs of a society shall be liable to be questioned in a civil court." *Explanatory note.*—The amendment provides for certain safeguards to prevent any possible abuse of the provisions of the section and makes it obligatory on the Registrar to give an opportunity to the general body to reform the management and to obtain the previous concurrence of the financing bank before a committee is dissolved. An appeal is specifically provided for to Government and the jurisdiction of civil courts is taken away in respect of all matters connected with the dissolution of a committee. In extraordinary cases sufficient power is vested in the Registrar to act under the section, dispensing with the procedure laid down.
DISSOLUTION OF SOCIETY.	
44. (1) If the Registrar, after an enquiry has been held under section 38 or after an inspection has been made under section 39 or section 40 or on receipt of an application made by three-fourths of the members of a registered society, is of opinion that the society ought to be dissolved, he may by order in writing cancel the registration of the society. A copy of the order shall forthwith be communicated to the society by registered post.	*Substitute* the following *for* sub-section (1) :— "44. (1) If the Registrar, after an enquiry has been held under section 38 or after an inspection has been made under section 39 or section 40 or on receipt of an application made by three-fourths of the members of a registered society, is of opinion that the society ought to be *wound up*, he may issue an order directing it to be *wound up*. A copy of the order shall forthwith be communicated to the society by registered post or *by messenger for delivery in person*."
(2) Any member of the society may, within two months from the date of the order made under sub-section (1), appeal to the Local Government from such order.	(2) No change.
(3) Where no appeal is presented within two months from the making of an order cancelling the registration of the society, the order shall take effect on the expiry of that period.	*Omit* sub-sections (3) and (4).
(4) Where an appeal is presented within two months the order shall not take effect until it is confirmed by the Local Government and such confirmation is communicated to the society by registered post.	*Explanatory note.*—The amendment provides for the winding up of a society before the cancellation of its registration, as in the Bombay and Burma Acts, the one distinct advantage being that the society does not lose its corporate character and hence there is scope for reviving it after recovering all the dues through summary procedure.
45. Where it is a condition of the registration of a society that it should consist of at least ten members who have attained the age of majority the Registrar may, by order in writing, cancel the registration of the society if at any time it is proved to his satisfaction that the number of the members has been reduced to less than ten such members.	Cancellation of registration of society *For* the words "cancel the registration of the society" *substitute* "*direct the society to be wound up*" and *add* the following at the end of the section :— "*Such orders shall not be passed without giving notice to the society and the members concerned.*" *Explanatory note.*—The proof required by the section must be after notice to the society and its members for which the amendment provides. Here, too, winding up precedes cancellation.

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	As existing.	Amendments recommended by the Committee.
Effect of cancellation of registration.	46. Where the registration of a society is cancelled the society shall cease to exist as a corporate body— (*a*) in the case of cancellation in accordance with the provisions of section 44, from the date of the order of cancellation takes effect; (*b*) in the case of cancellation in accordance with the provisions of section 45, from the date of the order.	46. *Omit.*
Winding up.	47. (1) Where the registration of a society is cancelled under section 44 or section 45, the Registrar may appoint any person to be liquidator of the society.	*For* sub-section (1) *substitute* the following:— "47. (1) *Where a society is wound up under section* 44 *or section* 45, *the Registrar may, after consulting the society appoint any person to be liquidator of the society; and notwithstanding that an appeal has been preferred under sub-section* (2) *of section* 44, *such person shall forthwith take into his custody or under his control all the property, effects and actionable claims to which the society is or appears to be entitled and of all books, records and other documents pertaining to the business thereof so far as may be necessary for the beneficial winding up of the society and may remove such person and appoint another in his place.*"
	(2) Subject to any rules that may be made under this Act, the whole of the assets of the society shall, on the appointment of a liquidator under sub-section (1), vest in such liquidator and he shall have power to realize such assets by sale or otherwise.	(2) *For* the words "he shall have power . . . by sale or otherwise" at the end of the sub-section, *substitute* the following:— "*he shall, so far as may be necessary for the speedy and beneficial winding up of the society by his name of office on behalf of the society, carry on the business thereof and do all the acts and execute all documents necessary for such winding up.*"
	(3) Such liquidator shall also have power, subject to the control of the Registrar—	(3) No change.
	(*a*) to institute and defend suits and other legal proceedings on behalf of the society by his name of office;	(*a*) No change. Add the following as clauses (*b*) and (*c*):— "(*b*) *to agree to a compromise or refer any matter to arbitration on behalf of the society;* "(*c*) *to determine the contributories and also the past members liable to contribute to the assets of the society.* "*Explanation.*— '*Contributory*' *means every person liable to contribute to the assets of the society in the event of its being wound up.*"
	(*b*) to determine from time to time the contribution to be made or remaining to be made by the members or past members or by the estates or nominees, heirs or legal representatives of deceased members (or by any officers or former officers) to the assets of the society, such contribution including debts due from such members or persons;	(*b*) *Re-letter* the clause as (*d*) and *add* the following at the end of the clause:— "*and for the purpose of clauses* (*c*) *and* (*d*), *to determine whether any person is a member, past member, nominee, heir or legal representative of the deceased member, an officer or a past officer of the society;*"

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As existing.	Amendments recommended by the Committee.
(c) to investigate all claims against the society and subject to the provisons of this Act to decide questions of priority arising between claimants;	*Re-letter* (c), (d), (e), (f) and (g) as (e), (f), (g), (h) and (i).
(d) to pay claims against the society (including interest up to the date of cancellation of registration) according to their respective priorities, if any, in full or rateably, as the assets of the society permit; the surplus, if any, remaining after payment of the claims being applied in payment of interest from the date of such cancellation at a rate fixed by him but not exceeding the contract rate in any case;	
(e) to determine by what persons and in what proportions the costs of the liquidation are to be borne;	
(f) to give such directions in regard to the collection and distribution of the assets of the society as may appear to him to be necessary for winding up the affairs of the society; and	
(g) to carry on the business of the society so far as may be necessary for the beneficial winding up of the same.	
	Add the following as sub-section (4):—
	"(4) *No order of contribution passed under the provisions of sub-section* (3) *or any proceedings taken under clause* (e) *of section* 57 *A of the Act for the recovery of debts or sums due to the society shall have effect and be enforceable for six years after the society is ordered to be wound up.*"
(4) Subject to any rules that may be made under this Act, a liquidator appointed under this section shall, in so far as such powers are necessary for carrying out the purposes of this section have power to summon and enforce the attendance of witnesses and to compel the production of any books, accounts, documents, securities, cash or other properties belonging to or in the custody of the society by the same means and (so far as may be) in the same manner as is provided in the case of a civil court under the Code of Civil Procedure (V of 1908).	*Renumber* (4), (5), (6), (7) as (5), (6) (7), (8).
(5) Any sum ordered under this section to be recovered as a contribution to the assets of the society or as costs of liquidation may be recovered, on a requisition being made in this behalf to the Collector by the Registrar, in the same manner as arrears of land revenue.	
(6) Save as provided in sub-section (5), orders made under this section shall, on application, be enforced by any civil court having local jurisdiction in the same manner as a decree of such court.	
(7) When the affairs of the society have been wound up, the liquidator shall deposit the records of the society in such place as the Registrar may direct.	

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As existing.	Amendments recommended by the Committee.
(8) Any person aggrieved by any order of the liquidator may appeal to the Registrar against such order within two months from the date of the issue of the order by registered post.	(8) *Renumber* as (9) and *add* the following after the words "registered post":— "*or from the date of the delivery of the order by a messenger, as the case may be.* "*Such appeal shall be heard by the Registrar in the presence of the parties and orders passed by him thereon shall be final. In cases involving claims of Rs.* 500 *and below it shall be in the discretion of the Registrar to allow the parties to be represented by legal practitioners; in cases involving over Rs.* 500 *in value the parties may appear by legal practitioners, if they so desire.*" *Explanatory note.*—Section 47 (1) Provides for consulting the wishes of the members of a society in the appointment of a liquidator to prevent a person with adverse personal interests being appointed and enables the liquidator to take possession of books, etc., immediately on the issue of the order for winding up. The addition of the new clauses (*b*) and (*c*) to sub-section (3) is to provide for such objects as do not find a place in the existing sub-section. Some civil courts have held that the liquidator has no power to decide whether a person is a member or not. This has now been provided for in clause (*d*). *Sub-section* (4).—A period of limitation has been defined for all contribution orders and proceedings for the recovery of debts in order to speed up proceedings. *Sub-section* (9).—An alternative mode of communication of the order to the parties has been provided. Provision has also been made for the parties being allowed to be represented by legal practitioners in certain appeals. After section 47, the following section shall be inserted, namely:— "47-*A. When the affairs of a registered society have been completely wound up, the liquidator shall make a report to the Registrar.* "47-*B* (1) *The Registrar may cancel an order for the winding up of a registered society in any case where, in his opinion, the society should continue to exist.* (2) *In any other case the Registrar shall, after considering the final report of the liquidator, if any, has been appointed, shall, by order in writing, cancel the registration of the society. The society shall cease to exist as a corporate body from the date of such order.*" *Explanatory note.*—These are consequential amendments to section 44.

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As existing.	Amendments recommended by the Committee.	
48. Save in so far as is expressly provided in this Act, no civil court shall take cognizance of any matter connected with the winding up or dissolution of a society under this Act, and when a liquidator has been appointed no suit or other legal proceeding shall lie or be proceeded with against the society except by leave of the Registrar and subject to such terms as he may impose.	No change.	Bar of suit in certain cases.
Surcharge and Attachment.		
49. (1) Where in the course of an audit under section 37 (*or an inquiry under section* 38 *or an inspection under section* 39) or the winding up of a society, it appears that any person who has taken part in the organization or management of the society or any past or present officer of the society has misappropriated or fraudulently retained any money or other property or been guilty of breach of trust in relation to the society, the Registrar may, of his own motion or on the application of the committee or liquidator or of any creditor or contributory, examine into the conduct of such person or officer and make an order requiring him to repay or restore the money or property or any part thereof with interest at such rate as the Registrar thinks just or to contribute such sum to the assets of the society by way of compensation in respect of the misappropriation, fraudulent retainer or breach of trust as the Registrar thinks just.	(1) After the words "any past or present officer of the society" *add* the words "*or any liquidator appointed under sub-section* (1) *of section* 47."	Surcharge
	(2) Between the words "present officer of the society has" and "misappropriated or fraudulently" *insert* the words—	
	"*within three years of the date of initiation of such audit, enquiry, inspection or winding up.*"	
	(3) *Omit* the word "and" occurring after the words "such person or officer" and *insert* the following in its place :—	
	"*after giving reasonable opportunity to the person concerned to submit his explanation and after necessary enquiry.*"	
	(4) *Add* the following as sub-section (2) :—	
	"*Where loss or damage is caused to a society through the gross negligence, wilful default or breach of trust of a person authorized to audit the accounts of a registered society under sub-section* (1) *of section* 37, *the Registrar may make an order requiring him to make good the loss or damage suffered by the society.*"	
(2) The order of the Registrar under sub-section (1) shall be final unless it is set aside by the District Court having jurisdiction over the area in which the headquarters of the society are situated or if the headquarters of the society are situated in the City of Madras, by the City Civil Court, on application made by the party aggrieved within three months of the date of receipt of the order by him.	(2) *Renumber* the sub-section as (3) and *substitute* "*sub-sections* (1) *and* (2)" *for* "sub-section (1)" and "*six months*" *for* "3 months."	
(3) Any sum ordered under this section to be repaid to a society or recovered as a contribution to its assets may be recovered on a requisition being made in this behalf to the Collector by the Registrar in the same manner as arrears of land revenue.	*Renumber* sub-sections (3) and (4) as (4) and (5).	
(4) This section shall apply notwithstanding that such person or officer may have incurred criminal liability by his act.	*Explanatory note—Section* 49 (1).—The amendment is intended to provide for reasonable opportunity being given to the persons concerned to submit their explanation and let in such evidence as they have got in their favour, and also for fixing a reasonable period of time within which the action complained of should have taken place.	
	Section 49 (2).—The new sub-section is proposed to define the responsibility of the Auditor for *gross negligence, breach of trust, etc.*	
	Section 49 (3).—Substitution of "six months" for "three months" is suggested, as it is considered that three months is too short a period.	

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As existing.	Amendments recommended by the Committee.
Attachment of property. 50. Where the Registrar is satisfied on the application of the liquidator or otherwise that any person with intent to defeat or delay the execution of any order that may be passed against him under clause (*b*) of sub-section (3) of section 47 or section 49— (*a*) is about to dispose of the whole or any part of his property ; or (*b*) is about to remove the whole or any part of his property from the local limits of the jurisdiction of the Registrar, the Registrar may, unless adequate security is furnished, direct the conditional attachment of the said property or such part thereof as he thinks necessary and such attachment shall have the same effect as if it had been made by a competent civil court.	*Omit* the words "such attachment shall have the same effect as if it had been made by a competent civil court," at the end and *substitute* the following in their place :— "*where such attachment has been made, any private transfer or delivery of the property attached or of any interest therein and any payment to the judgment-debtor of any debt, dividend or other moneys contrary to such attachment shall be void as against all claims enforceable under the attachment.*" *Explanatory note.*—The addition of the words at the end regarding the effect of attachment is necessary to avoid recourse to general law or the Civil Procedure Code which is inconvenient.

Arbitration.

Disputes. 51. (1) If any dispute touching the business of a registered society (other than a dispute regarding disciplinary action taken by the society or its committee against a paid servant of the society) arises— (*a*) among members, past members and persons claiming through members, past member and deceased members, or (*b*) between a member, past member or person claiming through a member, past member or deceased member and the society, its committee or any officer, agent or servant of the society, or (*c*) between the society or its committee and any past committee, any officer, agent or servant, or any past officer, past agent or past servant, or the nominee, heirs or legal representatives of any deceased officer, deceased agent, or deceased servant, of the society, or (*d*) between the society and any other registered society, such dispute shall be referred to the Registrar for decision.	Between the words "dispute" and "touching" *insert* the words "*or claim.*" Before the word "business," *insert* the words "*constitution, management or*" *Delete* the words "such dispute shall be referred to the Registrar for decision" at the end and *substitute* the following in their place :— "Such dispute *or claim* shall be referred to the Registrar for decision *and no court shall have jurisdiction to entertain any suit or other proceeding in respect of any such dispute or claim.*"
Explanation.—A claim by a registered society for any debt or demand due to it from a member, past member or the nominee, heir or legal representative of a deceased member, whether such debt or demand be admitted or not, is a dispute touching the business of the society within the meaning of this sub-section.	*For* the existing explanation to sub-section (1), the following explanations shall be substituted, namely :— "Explanation I.—*For the purposes of this sub-section, a dispute shall include—* (i) *a claim by a registered society for any debt or demand due to it from a member, past member or the nominee, heir or legal representative of a deceased member, whether such debt or demand be admitted or not ; or* (ii) *a claim by a surety for any sum or demand due to him from the principal borrower in respect of a loan taken from a registered society and recovered from the surety owing to the default of the principal borrower ; or* (iii) *a claim by a registered society for any loss caused to it by a member, past*

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As existing.	Amendment recommended by the Committee.
	member, or deceased member, any officer, past officer, or deceased officer, any agent, past agent or deceased agent, or any servant, past servant or deceased servant or its committee, past or present." Explanation II.—"*The question whether or not a person is or was a member of a registered society shall be a dispute within the meaning of this sub-section.*"
(2) The Registrar may, on receipt of such reference— (*a*) decide the dispute himself, or (*b*) transfer it for disposal to any person who has been invested by the Local Government with powers in that behalf, or (*c*) subject to such rules as may be prescribed, refer it for disposal to an arbitrator or arbitrators.	After clause (c) of sub-section (2), *add* the following paragraph :— "*Where the reference relates to any dispute involving immovable property, the Registrar, the person referred to in clause (b), or the arbitrator or arbitrators referred to in clause (c), as the case may be, may order that any person be joined as a party who has acquired any interest in such property subsequent to the acquisition of interest therein by a party to the reference; and any decision that may be passed on the reference by the Registrar, person, or arbitrator or arbitrators aforesaid shall be binding on the party so joined in the same manner as if he were an original party to the reference.*"
(3) Subject to such rules as may be prescribed, the Registrar may withdraw any reference transferred under clause (*b*) of sub-section (2) or referred under clause (*c*) of that sub-section and deal with it in the manner provided in the said sub-section.	(3) No change.
(4) Where the Registrar is satisfied that a party to any reference made to him under sub-section (1), with intent to defeat or delay the execution of any decision that may be passed thereon— (*a*) is about to dispose of the whole or any part of his property, or (*b*) is about to remove the whole or any part of his property from the local limits of the jurisdiction of the Registrar, the Registrar may, unless adequate security is furnished, direct the conditional attachment of the said property or such part thereof as he thinks necessary; and such attachment shall have the same effect as if it had been made by a competent civil court.	(4) *For* the words "and such attachment shall have the same effect as if it had been made by a competent civil court," at the end, *substitute* the following :— "*and on such attachment any private transfer or delivery of the property attached or of any interest therein and any payment to the judgment-debtor of any debt, dividend or other moneys contrary to such attachment shall be void as against all claims enforceable under the attachment.*"
(5) The Registrar may, of his own motion or on the application of a party to a reference, revise any decision thereon by the person to whom such reference was transferred or by the arbitrator or arbitrators to whom it was referred.	(5) *Omit.*
(6) (*a*) Any decision passed by the Registrar under clause (*a*) of sub-section (2) or under sub-section (5) shall be final and shall not be called in question in any civil or revenue court. (*b*) Any decision that may be passed by the person to whom a reference is transferred or by the arbitrator or	(6) *Omit.*

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As existing.	Amendments recommended by the Committee.
arbitrators to whom it is referred shall, save as otherwise provided in sub-section (5), be final and shall not be called in question in any civil or revenue court.	
	Explanatory note.—As there can be a claim without there being a dispute, it is considered necessary to provide for both "dispute and claim."
	Sub-section (1)—Recently the City Civil Court held that a dispute relating to the constitution of a society and the right of vote was not a dispute touching the business of a society. An amendment has therefore been suggested to meet such difficulties.
	The jurisdiction of civil courts has specially been barred.
	The section has been amplified providing *inter alia* that disputes between a defaulting borrower and his surety or sureties may be settled by arbitration and that any loss caused to a society may be made the subject-matter of a dispute as also questions relating to the membership of a person in a society.
	Sub-section (2).—The amendment provides that puisne mortgagees or encumbrancers and subsequent alienees of the property involved may be made parties the dispute.
	Sub-section (4).—Please see note under amendment to section 50.
	Sub-sections (5) *and* (6).—The omission of the sub-sections is consequential on new section 51-A.
	Add the following new sections after section 51 :—
	"51-A. (1) *A dispute regarding the business of a registered society, of the nature mentioned in section* 51 *between the society and its creditor who is not a member thereof may be referred to the Registrar*
	(a) *by the creditor whether the society consents to such reference or not, or*
	(b) *by the society, where the creditor consents.*
	Such a reference shall be dealt with and disposed of in the same manner as a reference under section 51.
	(2) *The provisions of sub-section* (2) *of section* 30, *in regard to fees leviable under the Stamp Act, Court-Fees Act and the Indian Registration Act may be extended to such references, decisions or awards or orders of the Registrar or arbitrators under the provisions of this section.*"
	Explanatory note.—This provides for disputes between outside creditors and societies being referred to the Registrar for decision without recourse to civil courts. This is considered desirable.

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As existing.

Amendments recommended by the Committee.

"51-B. (1) *The Registrar may, of his own motion or on the application of a party to a reference and after giving an opportunity to the parties affected to be heard, revise any decision, award or order passed thereon by the person to whom such reference was transferred under clause (b) of sub-section (2) of section 51 or by the arbitrator or arbitrators to whom it was referred under clause (c) of that sub-section.*

(2) *Every application under sub-section (1) shall be made within two months from the date of the issue of a copy of the decision, award or order to the applicant or from the date of the delivery of the decision, award or order by a messenger, as the case may be, provided that the application may be admitted after such period if the applicant satisfies the Registrar that he had sufficient cause for not making it within such period.*

(3) *Any decision passed by the Registrar under sub-section (1) and any decision, award or order passed under section 51 shall, save as otherwise provided in sub-section (1), be final and shall not be called in question in any civil or revenue court.*"

Explanatory note.—This combines the provisions of existing sub-sections (5) and (6) of section 51 and empowers the Registrar to revise all decisions including those passed by his subordinate officers. The amendment also prescribes a time-limit for appeals with power to the Registrar to condone delays in deserving cases.

"51-C. (1) *A financing bank may direct the committee of a registered society which is in default to it to take action against the members who are in default in respect of sums which have become due to it and if the committee neglects or fails to do so, the financing bank may take such action.*

(2) *Where such action is taken by the financing bank, the provisions of the Act and of any rules made thereunder or by-laws of the society shall apply in respect thereto as if all references to the society or its committee in the said provisions or references were references to the financing bank.*

(3) *Where a financing bank has obtained a decree or award against a registered society in respect of sums due from it, the financing bank may proceed for the recovery of such sums firstly, from the property of the society and secondly, from the members of the society to the extent of the loans due by such members to the ociety concerned.*"

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	As existing.	Amendments recommended by the Committee.
		Explanatory note.—The panchayatdars of societies who are in most cases defaulters do not take prompt action against other defaulters. There is therefore a need for empowering financing banks to realize the dues from the defaulters.
	OFFENCES AND PENALTIES.	
Offences.	52. It shall be an offence under this Act if— (*a*) a registered society or an officer or member thereof, wilfully makes a false return or furnishes false information; or (*b*) any person wilfully or without any reasonable excuse disobeys any summons, requisition or lawful written order issued under the provisions of this Act or does not furnish any information lawfully required from him by a person authorized in this behalf under the provisions of this Act.	No change.
Punishment for disposing of property in contravention of section 21.	53. Any member or past member or the nominee, heir or legal representative of a deceased member contravening the provisions of section 21 by fraudulently disposing of any property in respect of which the society is entitled to claim priority under that section or doing any other act to the prejudice of such claim, shall be punishable with fine not exceeding two hundred rupees.	53. *For* the word "priority" in section 53, *substitute* the words "*a first charge.*" *Explanatory note.*—This is consequential on new section 21 (1).
Prohibition of the use of the word 'co-operative.'	54. (1) No person other than a registered society shall trade or carry on business under any name or title of which the word 'co-operative' is part without the sanction of the Local Government: Provided that nothing in the section shall apply to the use by any person or his successor in interest of any name or title under which he traded or carried on business at the date on which the Co-operative Societies Act II of 1912 came into operation. (2) Whoever contravenes the provisions of sub-section (1) shall be punishable with fine which may extend to fifty rupees and in the case of a continuing offence with further fine of five rupees for each day on which the offence is continued after conviction therefor.	In sub-section (1) of section 54 for the words "of which the word 'co-operative' is part" the following words shall be substituted, namely:— "*Of which the word 'co-operative' or any of its cognate expressions or the equivalent of such word or expressions in any language of the province forms part.*" *Explanatory note.*—The object of the amendment is to prevent an institution not registered under the Act being named with some modified form of the word 'Co-operative' thereby creating an impression that it is so registered.
Punishment for offences not otherwise provided for.	55. Any registered society or any officer or member thereof or any other person guilty of an offence under this Act for which no punishment is expressly provided herein, shall be punishable with fine not exceeding fifty rupees.	55. No change.
Cognizance of offences.	56. (1) No court inferior to that of a Presidency Magistrate or a Magistrate of the first class shall try any offence under this Act.	56. No change

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As existing.	Amendments recommended by the Committee.
(2) Every offence under this Act shall, for the purposes of the Code of Criminal Procedure (V of 1898), be deemed to be non-cognizable.	
(3) No prosecution shall be instituted under this Act without the previous sanction of the Registrar. Such sanction shall not be given without giving the party concerned an opportunity to be heard.	
MISCELLANEOUS.	
57. The Local Government or the Registrar may call for and examine the record of any enquiry or the proceedings of any officer subordinate to them for the purpose of satisfying themselves as to the legality or propriety of any decision or order passed and as to the regularity of the proceedings of such officer. If in any case it shall appear to the Local Government or the Registrar that any decision or order or proceedings so called for should be modified, annulled, or reversed, the Local Government or the Registrar, as the case may be, may pass such order thereon as to it or him may seem fit.	(1) *Add* the following proviso to the existing section :— Power of Government and Registrar to call for proceedings and to pass orders thereon. "*Provided further that the Local Government may exercise the powers specified in this section in respect of orders passed by the Registrar.*)" (2) At the end of section 57 the following sentence shall be added, namely :— "*No order passed by the Registrar or by the Provincial Government under this section shall be called in question in any civil court.*" *Explanatory note.*—See note on section 8.
57-A. The Registrar or any person subordinate to him empowered by the Registrar in this behalf may, subject to such rules as may be prescribed by the Local Government and without prejudice to any other mode of recovery provided by or under this Act, recover—	*Renumber* the existing section as sub-section (1) and re-letter clauses (*b*), (*c*) and (*d*) as (*d*), (*e*) and (*f*) and *insert* the following as new clauses (*b*) and (*c*) :— Power of Registrar to recover certain sums by attachment and sale of property. "(*b*) *Any sum due to the Government under section* 31 *which is ordered to be recovered by the Registrar or any person authorized by him in this behalf* ; (*c*) *any expenses incurred in calling the meeting referred to in sub-section* (3) *of section* 15 *or in clause* (*ii*) *of sub-section* (2) *of section* 38, *the recovery of which is ordered by the Registrar* ; *or* "
(*a*) any amount due under a decree or order of a civil court, a decision or an award of the Registrar or arbitrator, or an order of the Registrar, obtained by a registered society including a financing bank or liquidator ; or	
(*b*) any sum awarded by way of costs under section 41 to a registered society including a financing bank or to the Government ; or	
(*c*) any sum ordered under section 47 to be recovered as a contribution to the assets of a society or as costs of liquidation ; or	
(*d*) any sum ordered under section 49 to be repaid to a society or recovered as a contribution to its assets	
together with the interest, if any, due on such amount or sum and the costs of process, by the attachment and sale or by the sale without attachment of property of the person against whom such decree, decision, award or order has been obtained or passed.	*Add* the following as sub-section (2) :— (2) *Where the property of a person has been sold under sub-section* (1), *the Registrar or other person empowered by the Registrar, as the case may be, may in accordance with the rules made in this behalf, place the purchaser in possession of the property sold.* *Explanatory note.*—Loans granted to societies under section 31 are now recoverable only under section 58 of the Act. The clause provides for the recovery of such loans under section 57-A of the Act. It also provides for the recovery of the expenses incurred in calling the meeting under sections 15 and 38 of the Act from the person or persons responsible for the failure or refusal to convene such meeting. Provision for effecting delivery of possession of properties is introduced as it is considered necessary that there should be such a provision under the Act,

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As existing.	Amendments recommended by the Committee.
	as without it, the provision of the other sub-clauses will be rendered more or less ineffective or parties will have to go to civil courts to get possession.
Registrar or person empowered by him to be a Civil Court for certain purposes. 57-B. The Registrar or any person empowered by him in that behalf shall be deemed, when exercising any powers under this Act for the recovery of any amount by the attachment and sale or by the sale without attachment of any property, or when passing any orders on any application made to him for such recovery or to take some step in aid of such recovery, to be a Civil Court for the purposes of Article 182 of the First Schedule to the Indian Limitation Act (IX of 1908).	57-B. No change. *After section 57-B of the Act, the following section shall be inserted, namely :—* *"57-C. The following persons shall be deemed to be public servants within the meaning of section 21 of the Indian Penal Code and also to be public officers within the meaning of section 2 of the Code of Civil Procedure, 1908 :—* *(i) the person appointed as Registrar of Co-operative Societies under section 3 ;* *(ii) every person on whom the powers of a Registrar have been conferred under section 3 ;* *(iii) every person authorized to audit the accounts of a registered society under section 37, or to hold an inquiry under section 38 or to make an inspection under section 39 ;* *(iv) every person appointed under section 43 to manage the affairs of a society;* *(v) every person appointed under section 47 to be the liquidator of a society, whether exercising his powers under that section, or any other provision of this Act or any rule made thereunder ;* *(vi) every arbitrator to whom a dispute is referred under section 51 ;* *(vii) every officer of the Co-operative Department empowered by the Registrar by general or special order to attach and sell or sell without attachment the property of any person against whom any decree, order, decision or award referred to in section 57-A has been obtained ; and* *(viii) every person appointed by the Registrar to assist the officer mentioned in clause (vii) of this section."* *Explanatory note.*—This lays down in the Act itself who is a Public Officer on the model of section 58 of the Bihar and Orissa Co-operative Societies Act.
Recovery of sums due to Government. 58. (1) All sums due from a registered society or from an officer, former officer, member or past or deceased member of a registered society as such to the Government including any costs awarded to the Government in any proceeding under this Act may be recovered in the same manner as arrears of land revenue. (2) Sums due from a registered society to the Government and recoverable under sub-section (1) may be recovered, firstly, from the property of the society ; secondly, in the case of a society the liability of the members of which is limited, from the members, past members or the estates of deceased	58. No change.

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As existing.	Amendments recommended by the Committee.	
members, subject to the limit of their liability; and, thirdly, in the case of other societies from the members, pas members or the estate of deceased members : Provided that the liability of past members and of the estates of deceased members shall in all cases be subject to the provisions of section 25.		
59. Notwithstanding anything contained in this Act, the Local Government may, by special order in each case and subject to such conditions, if any, as it may impose, exempt any society from any of the requirements of this Act as to registration.	59. No change.	Power to exempt societies from conditions as to registration.
60. The Local Government may, by general or special order, exempt any registered society from any of the provisions of this Act or may direct that such provisions shall apply to such society with such modifications as may be specified in the order.	60. No change.	Powers to exempt registered societies from provisions of the Act.
61. The provisions of the Indian Companies Act (VII of 1913) shall not apply to registered societies.	61. No change.	Indian Companies Act, 1913, not to apply.
62. (1) Every society now existing which has been registered under the Co-operative Credit Societies Act, 1904, or under the Co-operative Societies Act, 1912, shall be deemed to be registered under this Act, and its by-laws shall, so far as the same are not inconsistent with the express provisions of this Act, continue in force until altered or rescinded. (2) All appointments, rules and orders made, notifications and notices issued and suits and other proceedings instituted under the said Acts shall, so far as may be, be deemed to have been respectively made, issued and instituted under this Act.	62. No change.	Saving of existing societies.
63. No act of a registered society or any committee or of any officer of the society, shall be deemed to be invalid by reason only of some defect in the organization of the society or in the formation of the general body or in the appointment or election of the officer or on the ground that he was disqualified for his office.	63. No change. *Insert* the following section after section 63 :— " 63-A. *No suit shall be instituted against a registered society or any of its officers in respect of any act purporting to be done in relation to the business of that society until the expiration of two months next after notice in writing has been delivered* (1) *to the society and* (2) *to the Registrar or left at his office* *stating the cause of action, the name, description and place of residence of the plaintiff and the relief which he claims; and the plaint shall contain a statement that such notice has been so delivered or left.*" *Explanatory note.*—In one or two cases, depositors filed suits against societies even when there was a possibility of the	Acts of societies, etc., not to be invalidated by certain defects.

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	As existing.	Amendments recommended by the Committee.
		societies paying the money in instalments. The amendment is designed to enable the Registrar to ascertain whether the suit can be avoided by his intervention or that of the financing bank and it follows section 80 of the Civil Procedure Code.
Construction of references to Co-operative Societies Act, 1912, in enactments.	64. All references to the Co-operative Societies Act (II of 1912) occurring in any enactment made by any authority in British India and for the time being in force in the Presidency of Madras shall, in its application to the said Presidency, be construed as references to this Act.	64. No change.
Rules.	65. (1) The Local Government may for the whole or any part of the Presidency of Madras, and for any registered society or class of such societies, make rules to carry out all or any of the purposes of this Act ;	65. (1) No change.
	(2) in particular and without prejudice to the generality of the foregoing power, such rules may—	
	(*a*) subject to the provisions of section 6 prescribe the maximum number of shares or portion of the capital of a society which may be held by a member ;	
	(*b*) prescribe the forms to be used and the conditions to be complied with in the making of applications for the registration of a society and the procedure in the matter of such applications ;	
	(*c*) subject to the provisions of section 5 prescribe the procedure to be followed when societies change their form of liability ;	
	(*d*) prescribe the matters in respect of which a society may or shall make by-laws and for the procedure to be followed in making, altering and abrogating by-laws, and the conditions to be satisfied prior to such making, alterations or abrogation ;	
	(*e*) prescribe the conditions to be complied with by persons applying for admission or admitted as members, and provide for the election and admission of members, and the payment to be made and the interests to be acquired before the exercise of the right of membership ;	
	(*f*) regulate the manner in which funds may be raised by means of shares or debentures or otherwise ;	In sub-section (2)— (i) *add* the following words to clause (*f*) :— "*and prescribe the purposes to which the funds may not be applied.*"
	(*g*) provide for general meetings of the members and for the procedure at such meetings and the powers to be exercised by such meetings ;	
	(*h*) prescribe in the case of a financing bank—	
	(i) the proportion of individual members to society members in the constitution of its general body or of its committee ; and	

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As existing.

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(ii) the maximum number of members of its committee :

(*i*) provide for the appointment, suspension and removal of the members of the committee and other officers and for the procedure at meetings of the committee and for the powers to be exercised and the duties to be performed by the committee and other officers ;

(*j*) prohibit a society from appointing a defaulting member of any society to its committee or to the committee of any other society and allowing him to exercise his rights of membership in the society or to represent it in another society and vote ;

(*k*) prescribe the accounts and books to be kept by a society and provide for the audit of such accounts and the charges, if any, to be made for such audit, and for the periodical publication of a balance sheet showing the assets and liabilities of a society ;

(*l*) prescribe the returns to be submitted by a society to the Registrar and provide for the persons by whom and the form in which such returns shall be submitted and in case of failure to submit any such return for the levy of the expenses of preparing it ;

(*m*) provide for the persons by whom and the form in which copies of entries in books of societies may be certified and for the charges to be levied for the supply of such copies ;

(*n*) provide for the formation and maintenance of a register of members, and, where the liability of the members is limited by shares, of a register of shares :

(*o*) provide for—

(i) the appointment of an arbitrator or arbitrators to decide disputes ;

(ii) the procedure to be followed in proceedings before the Registrar, arbitrator or arbitrators or other person deciding disputes including the appointment of a guardian for a party to the dispute who is a minor or who, by reason of unsoundness of mind or mental infirmity, is incapable of protecting his interests ;

(iii) the levy of the expenses incidental to such proceedings ; and

(iv) the enforcement of the decisions or awards in such proceedings ;

(*p*) provide for the withdrawal and expulsion of members and for the

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As existing.	Amendments recommended by the Committee.
payments, if any, to be made to members who withdraw or are expelled and for the liabilities of past members, or the estates of deceased members;	
(*q*) prescribe the prohibitions and restrictions subject to which societies may trade with persons who are not members;	
(*r*) provide for the mode in which the value of a deceased member's interest shall be ascertained, and for the nomination of a person to whom such interest may be paid or transferred;	
(*s*) prescribe the payment to be made and the conditions to be complied with by members applying for loans, the period for which loans may be made and the amount which may be lent, to an individual member;	
(*t*) provide for the formation and maintenance of reserve funds, and the objects to which such funds may be applied, and for the investment of any funds under the control of a society;	
(*u*) prescribe the extent to which a society may limit the number of its members;	
(*v*) prescribe the conditions under which profits may be distributed to the members of a society with unlimited liability and the maximum rate of dividend which may be paid by societies;	
(*w*) prescribe the procedure to be followed by a liquidator appointed under section 47, and provide for the disposal of the surplus assets, if any, of the society;	
(*x*) subject to the provisions of this Act, determine the cases in which an appeal shall lie from the orders of the Registrar, and prescribe the procedure to be followed in presenting and disposing of all appeals under this Act;	
(*y*) prescribe the period for which and the terms under which aid may be given by the Local Government to societies and the terms under which the Local Government may guarantee the payment of interest on debentures issued by societies;	
(*z*) provide for the custody of property attached under this Act;	(ii) *for* clause (*z*), *substitute* the following clause, namely:— "(*z*) *provide for the custody of any property attached under this Act and the enforcement of the liability, if any, of the person or persons with whom any property so attached has been entrusted for safe custody.*" :
(*aa*) provide for the issue and service of processes and for proof of service thereof;	
(*bb*) provide for the inspection of documents in the Registrar's office and the levy of fees for granting certified copies of the same;	
(*cc*) provide for the investigation of claims and objections that may be	

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As existing.	Amendments recommended by the Committee.
preferred against any attachment effected by the Registrar or an officer empowered by him ;	
(*dd*) provide for the recovery of costs awarded against the Government in cases under section 49 ;	
(*ee*) prescribe the procedure for the attachment and sale of property under section [57-A] ; and	*Add* the following at the end of clause (*ee*) :— "*also for the realization of any security given by a person in the course of execution proceedings*"
	Add the following as clauses (*ff*), (*gg*), (*ggg*) and (*hh*) :— "(*ff*) *prescribe qualifications for the employees of a registered society and the conditions of service subject to which persons may be employed by it* ;
	(*gg*) *provide for the procedure to be adopted by the Registrar in cases where the taking of possession of the books, documents, securities, cash and other properties of a society or of a society the affairs of which have been ordered to be wound up by the Registrar under section 44 or 45 by a person entitled to the same, is resisted or obstructed* ;
	(*ggg*) *notwithstanding anything contained in any of the provisions of this Act, provide for the delegation of the functions of the "general body of members" or "the members of a society" to a smaller body representing the larger body* ;
	(*hh*) *provide for the procedure to be adopted when societies with limited liability reduce their share capital.*" *and*
(*ff*) provide for all matters expressly required or allowed by the Act to be prescribed by rules.	No change but *re-letter* (*ff*) as (*ii*).
(3) The power to make rules conferred by this section is subject to the condition of the rules being made after previous publication.	No change.
(4) All rules made under this section shall be published in the *Fort St. George Gazette* and on such publication shall have effect as if enacted in this Act.	Do.
(5) All such rules shall be laid on the table of the Legislative Council.	*For* sub-section (5) *substitute* the following :— "(5) *All such rules shall be laid on the table of both the Chambers of the Madras Legislature. If the Madras Legislative Assembly passes a resolution rescinding or modifying any such rule, such rule shall stand cancelled or modified accordingly.*"
	Explanatory note—Sub-section (2)—*Clause* (*f*).—The object of amendment is to frame a rule prohibiting the use of the funds of a society on any entertainment, complimentary or valedictory address or on a portrait, bust or statue.
	Sub-section (2)—*Clause* (*z*).—The amendment empowers the Government to frame a rule on the lines

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As existing.	Amendments recommended by the Committee.
	of section 145 of the Code of Civil Procedure providing for the enforcement of the liability of sureties. *Sub-section* (2)—*Clause* (*ee*).—Provides for the realization of any security given by a person in the course of execution proceedings. No such provision now exists. *Sub-section* (2)—*Clauses* (*ff*), (*gg*), (*ggg*), (*hh*).—The amendments extend the rule-making power to the matters stated therein, which are found necessary. *Sub-section* (5).—The amendment is thought necessary to give the Legislature a chance to examine the rules.
REPEALS.	
66. The enactments specified in the schedule are hereby repealed in so far as they apply to the Presidency of Madras to the extent specified in the fourth column of the said schedule.	66. No change.
RULES.	
Definitions.	
(*h*) "Sale officer" means an officer of the Co-operative Department empowered by the Registrar by general or special order to attach and sell the property of defaulters;	(*h*) *Delete* the words "of the Co-operative Department . . . defaulters" and *substitute* the following:— "empowered by the Registrar by general or special order to attach and sell the property of defaulters." *Explanatory note.*—The amendment provides for the Registrar, by a general or special order, empowering the officer to attach and sell the property of the defaulters.
Rule III. (2) If the Registrar is not satisfied on all or any of the points mentioned in clauses (*a*), (*b*) and (*c*) of sub-rule (1), he shall refuse to register the society; but if he is satisfied on all the said points, he may register the society and its by-laws and grant to such society free of cost a certificate of registration signed by himself and bearing his official seal; and he shall also issue to the society along with the certificate of registration a certified copy of the draft by-laws as approved and registered by him, and these by-laws shall, subject to the result of any orders passed on appeal or in revision as provided in the Act, be the by-laws of the society.	III. (2) *Add* the following sentence at the end:— "A copy of such certificate together with the approved by-laws shall be furnished to the financing bank concerned." *Explanatory note.*—The amendment provides for a copy of the certificate of registration and a copy of the by-laws being supplied to the financing bank, which is not done now.
XII. (*d*) Should a society, whether with limited or unlimited liability, which is competent either under the Act or under these rules to divide a part of its net profits among its members elect to appropriate such portion or part thereof	XII. (*d*) *Add* the following words at the end:— "or any purpose likely to advance the co-operative movement or further its progress."

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As existing.	Amendments recommended by the Committee.
to a "common good fund," the purpose designated by the expression "common good" shall be clearly defined in the by-laws of the society and it shall not be other than a *charitable purpose* as defined in section 2 of the Charitable Endowments Act, 1890.	*Explanatory note.*—The addition of a clause "or any purpose likely to advance the co-operative movement or further its progress" is made with a view to liberalize the beneficial provisions of the section. See note to section 36.
XV. (2) Where on receipt of such a reference the Registrar wishes to refer it for disposal by arbitration the reference shall be made either to a single arbitrator appointed by the Registrar or to a body of arbitrators of whom one shall be nominated by the Registrar and one by each of the parties to the dispute. The arbitrator appointed by the Registrar shall act as the chairman of the body of arbitrators and shall fix the time and place for the hearing of the dispute and carry on the necessary correspondence in connexion with the reference.	XV. (2) *Delete* the words "wishes to refer it" and *substitute* the words "refers it under the provisions of the Act."
	Explanatory note.—Specifically mentions that the Registrar has powers of reference under the provisions of the Act.

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APPENDIX II

The Province of Madras—General Background and its influence on Co-operation.

Natural divisions and distinguishing agricutural and economic features.

We propose to give a brief descriptive account of the physical features of the Province including the agricultural and economic practices prevailing, a knowledge of which may be relevant to the subject-matter of our enquiry. The Province consists of 142,276 square miles. In its physical conditions, it is far from homogeneous; of its 25 districts, no two are precisely alike and even within the districts there are variations of soil and climate. A proper understanding of its geography requires a division into natural regions. It is not possible to demarcate the natural regions precisely, but the following grouping of districts is sufficiently indicative. The first principal region is that of the Northern Circars comprising Vizagapatam, East Godavari, West Godavari, Kistna and Guntur. The second is the Coramandel Coast including the districts of Nellore, Chingleput and South Arcot. The third is the Cauvery delta (Tanjore). The fourth division comprises the southern districts of Trichinopoly, Madura, Ramnad and Tinnevelly. The fifth is the Deccan plateau including Bellary, Kurnool, Cuddapah and Anantapur. The sixth is formed by the central districts of Chittoor, North Arcot, Salem and Coimbatore. Finally come South Kanara and Malabar or the West Coast.

The first region should properly be subdivided into three, the Godavari and Kistna deltas, the Agency highlands and the coastal plain. Each of the other regions has subdivisions, but to describe them would be unnecessary for our purposes. The delta subdivisions of the first region and the Cauvery delta are characterised by perennial irrigation, dense population and great agricultural wealth. The density of population means that wealth *per capita* is not greatly in excess of the wealth *per capita* in other regions. The Coramandel coast is an area which gets its principal rainfall from the north-east monsoon in the last quarter of the year and irrigation is mainly from tanks. Paddy is the dominant crop. The southern districts also get most of their rain from the north-east monsoon. The soils are different from those of the Coramandel coast, with the result that a very considerable part of the area is normally devoted to cotton. The other areas in which industrial crops are of importance are the Deccan districts, in which cotton and groundnut are grown, and the central districts of which Coimbatore grows more cotton and the others more groundnut. Guntur has proved particularly suitable for the growing of virginia tobacco. This group of districts in the Deccan and the Central area depends on both monsoons and has tank irrigation for the most part. In Coimbatore there has been a very extensive development of well irrigation. The West Coast enjoys a very heavy rainfall from the south-west monsoon. Coconut and arecanut palms thrive in certain parts and elsewhere paddy occupies the greater part of the crop area. The Nilgiris and Travancore may be treated as part of the West Coast, but are better put in a class by themselves with the Yercaud plateau in the Salem district. These areas have large plantations of tea, coffee and rubber and benefit from the cultivation of fruit and vegetables including potatoes. Cattle-breeding is a feature of a few specialised areas, of which the principal ones are in Guntur, Salem and Coimbatore. The cultivation of fruit, particularly plantain and citrus fruits, is a feature of the deltaic areas, the West Coast and a few specialized small areas elsewhere, notable examples being in Southern Cuddapah and north-eastern Chittoor.

While cultivation of paddy is mainly a question of irrigation facilities, the other crops are distributed largely according to variations in soil. The heavy clay soils like the black cotton soil are particularly suitable for cotton and cholam and these are grown in areas where these soils are found, notably in the Deccan districts, in Coimbatore and in the southern districts. Groundnut grows in sandy soils and consequently occupies a large proportion of the crop area in the region adjoining the Mysore plateau (North Arcot and the Ceded districts).

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Influence of regional characteristics on growth of co-operation.

Geographical conditions, which affect agricultural operations, have a distinct bearing on the features of co-operative credit. The times at which funds are required, crops are harvested and repayments made are influenced largely by seasonal conditions. The volume of credit required varies partly with the nature of the crop and partly with the density of population. Areas of perennial irrigation with their great security of yield, attract dense populations. The density of population in the Godavari and Tanjore deltas is over 600 per square mile. On the other hand, in areas of precarious rainfall, such as the Deccan districts, the density is less than 200 per square mile. The demand for credit in areas of secure crop and dense population is an indication of the wealth of the region, while in areas of precarious crops where a good crop may be harvested only once in a period of years, credit is more a matter of tiding over the periods of stress. It is not surprising that in the Deccan districts of Anantapur, Bellary, Cuddapah and Kurnool, co-operative credit is comparatively little developed. Compare the Ramachandrapuram taluk of the East Godavari district where there are 114 villages and 87 village credit societies with the Adoni taluk of the Bellary district which has 164 villages but only 29 village societies. Again, about 16 per cent of the population in the East Godavari district are members of Agricultural societies (counting each village society member as one of a family of 5) while the percentage is only 6 in Bellary. The amount of money required per square mile is also much less in the Deccan districts and so is the repaying capacity per head of population.

During 1938–39 village credit societies in East Godavari issued loans to the extent of Rs. 15·13 lakhs which represent about Rs. 600 per square mile of the area of the district, while in Bellary the loan issued per square mile was only Rs. 23. The average loan issued per member in East Godavari is nearly three times that in Bellary. In the deltaic areas co-operative credit societies are generally more numerous, the transactions are greater per member, and their solvency is much less in doubt.

The agricultural wealth in the delta areas is also reflected in the volume of indebtedness of the ryots and in the success achieved by co-operative land mortgage banks in those areas. The heavy capital investment in land and the consequent heavy indebtedness of the ryots, the high land values and the certain income from land have all created the need and conditions favourable for the formation and working of land mortgage banks. There are at present 9 such banks in Tanjore, 8 in East Godavari, 7 in Kistna and 6 in West Godavari; the loans outstanding against members in these banks together amount to about one crore of rupees. On the other hand there are only 8 banks on the whole in the four Deccan districts and even these banks have developed little business, the total loans outstanding against members being less than four lakhs of rupees.

Hindu Law and social conditions.

Apart from physical conditions, there are differences of personal and family law and of land tenure which have a bearing on co-operative development. The Marumakkattayam system which large communities on the West Coast follow appears to have a retarding effect on the growth of co-operative societies. A characteristic feature of the system is that descent is traced through the female line and all property vests in the joint family or tarwad. No one has more than a claim to maintenance and a residence. It is managed by one member and is apparently of less value as an asset on which to raise a loan than the joint family property under the Mitakshara law. To this is ascribed the slow growth of land mortgage banks on the West Coast. The first banks in these districts were registered so late as 1938 long after banks had been started elsewhere. Even the six banks registered in 1938 have made little progress.

Apart from the difficulties arising out of the laws of inheritance, the system of land tenure obtaining on the West Coast also stand in the way of the progress of these banks. The tenures in Malabar are extremely complicated and we shall not attempt the task of describing them here, particularly as there is a committee sitting now to report on them. South Kanara tenures too are peculiar and will form a study by themselves. In the rest of the Province the ryotwari tenure with the ryot's right to alienate his land presents no difficulty; but the right of the tenant in the zamindari or permanently-settled estates is not considered quite so easy to deal with,

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though he has generally speaking a right of permanent occupancy. It may generally be stated that land mortgage banks are more shy of advancing money on tenants lands in Malabar, South Kanara and the zamindari areas than in the ryotwari areas of the Province.

Crops, commerce and trade.

In certain areas cultivation is mainly for subsistence. The crops grown are food crops and the bulk of them is consumed locally. Of the food grains, only rice is truly a staple of commerce. Of non-food crops, cotton, groundnut, coconut and tobacco are staples of trade. The recent development of sale societies in Coimbatore, Salem and Madura is connected with the increase in commercial crops, particularly the increase of important staples which find a wider market. Coimbatore is now the centre in South India for long staple cotton. Rice or paddy has not led to the development of sale societies to the same extent in areas where there is a surplus of production because the conditions of marketing do not provide the same scope for co-operative methods. Anyhow, in the improvement of marketing in the Province, so far co-operation has been of less importance than the improvement of communications.

The centres of trade have a bearing on the development of co-operation. Co-operative urban banks, in particular, have a great scope for activity where trade is active such as in the great urban centres of Madura, Coimbatore, Salem and Cocanada.

Industrial back ground.

The Province is predominantly agricultural (86·44 per cent of the population live in the villages) and the development of industries has not made any very considerable progress. In recent years a number of factories have come into existence. The manufactures which have become important in this Province include spinning of yarn, weaving of cloth, sugar, matches, cement and soap. The total daily number of employees in all factories including textiles is about 187,000. It is, however, the case that the number of operators employed in factories represent only 0·39 per cent of the total population. In other words, industrial employment is very unsatisfactory indicating as it does the backwardness of the Province in the matter of the development of industries. Small-scale and cottage industries have not been on the whole faring well. The decay of local industries for some years has left the rural population no supplementary sources of income outside the seasonal periods of their agricultural work. There is, however, a general recognition that no scheme for the economic reconstruction of a great agricultural Province like Madras can be complete without adequate provision for the introduction and development of rural industries and that it has become very necessary to develop rural industries, which should provide for people the articles of daily use they require. Handloom weaving, ranking in importance and magnitude next only to agriculture, is fairly widespread in the Province, and owing to competition from mill-made fabrics, the position of the industry has been definitely unsatisfactory. That some adjustment of the spheres of production between the powerloom and the handloom and regulation of the class of fabrics to be produced by each is necessary in the interests of handloom industry is generally recognized.

On the whole the position industrially of this Province has been admittedly unsatisfactory and there is a growing recognition in favour of a more balanced internal economy as between manufacturing industries including small-scale and cottage industries and the primary production of agricultural commodities. A great lack of the Province in the past has been cheap power. A beginning has been made in the systematic use of water power resources and in this will be found the stimulus, long lacking, to a marked forward step in the industrial development.

Agricultural and economic features of the Deccan districts.

As we, in the course of our report, propose to deal with some special measures for the dry tracts of the Province, we may perhaps describe in some detail the conditions prevailing in them especially those in the Deccan districts. There are portions of Coimbatore and Salem districts which are also subject to frequent failures of the monsoon and are without adequate protection, now and then necessitating relief measures. It is

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true that in these tracts there is a very large number of wells dug at heavy cost by the ryots. But these wells dry up if the monsoon fails in more than one season. The Deccan districts stand on a different footing as the abnormal seasonal variations on a large scale over a widespread area are more frequent, requiring special measures more often. Except a few parts of the Deccan districts which enjoy a slightly higher average rainfall and portions protected by the Kurnool-Cuddapah Canal, the rest of the area is liable to famine. In this area, the eastern part of Bellary, the western part of Kurnool and greater part of Anantapur district are the worst sufferers. These parts consist mostly of black cotton soil stretching for over 4,000 square miles, inhabited by nearly one million people mostly all in villages. The black cotton soil area is very fertile and highly retentive of moisture, and therefore, requires little rain, if well distributed. There are very few tanks and wells, and so the entire black cotton soil tract depends on the rainfall for growing crops. From the statistics available, it is seen that only 2·7 per cent of the crops grown are irrigated in Bellary district, 5·9 per cent in Kurnool district, 11·6 per cent in Anantapur district and 22·4 per cent in Cuddapah district. In view of the vagaries of the monsoon, the average remissions granted in Anantapur and Bellary have been fairly high and fairly large amounts are being spent for famine relief. So unless measures calculated to create wealth and fostering powers of resistance are formulated and carried out, the steady drain on the resources of the State will continue. Under such conditions co-operation cannot thrive successfully. In making recommendations specially applicable to these dry tracts, we have taken note of these facts and have made suggestions to create conditions favourable for the growth of the co-operative movement especially in the Deccan districts.

The statement appended shows the relation between agricultural, social and co-operative development of each district of the Province and the relative spread of the co-operative movement.

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I.—Actual

Serial number.	District.	Rainfall (average).	Total area in square miles.	'Normal' area sown with crops.	Area protected by all irrigation in seasons.	Principal crops — Food.	Area in thousands of acres.
(1)	(2)	(3) (a)	(4) (c)	(5) (b)	(6) (b)	(7) (b)	(8) (b)
	Circars—						
1	Vizagapatam (f) ..	45·23	8,077	1,673	63·9	Paddy	866
						Ragi	272
2	East Godavari (f) ..	40·47	6,220	1,064	408·1	Paddy	661
3	West Godavari ..	38·68	2,361	1,006	547·0	Paddy	680
4	Kistna	36·14	3,547	1,223	430·4	Paddy	570
						Cholam ..	212
5	Guntur	32·41	5,756	2,401	347·4	Cholam	423
						Paddy ..	390
	Deccan—						
6	Kurnool	25·49	7,593	2,157	186·3	Cholam ..	559
						Korra	473
7	Bellary	23·51	5,694	2,506	36·7	Cholam ..	640
						Korra	544
8	Anantapur ..	19·99	6,730	2,125	90·1	Korra	340
						Cholam ..	270
9	Cuddapah	27·87	5,923	1,130	165·7	Cholam ..	310
	Central—						
10	Chittoor	33·19	5,904	845	92·5	Paddy	191
						Ragi	167
11	North Arcot ..	37·86	4,660	1,449	154·1	Paddy	525
12	Salem	32·88	7,058	1,791	59·5	Cumbu	315
						Ragi	253
13	Coimbatore ..	27·07	7,102	2,211	212·0	Cholam ..	467
						Cumbu	346
	Coromandel—						
14	Nellore	37·31	7,949	1,522	265·5	Paddy	439
						Cholam ..	428
15	Chingleput ..	46·00	3,072	966	69·9	Paddy	689
16	South Arcot ..	46·15	4,208	1,518	483·8	Paddy	580
	Cauvery Delta—						
17	Tanjore	44·77	3,746	1,465	756·2	Paddy	1,133
	Southern—						
18	Trichinopoly (h) ..	31·77	4,415	1,479	100·2	Paddy	306
						Cumbu	265
19	Madura	33·79	4,783	1,345	358·9	Paddy	341
						Cholam	246
20	Ramnad	35·45	4,868	1,351	(j)	Paddy	426
21	Tinnevelly ..	28·70	4,357	1,392	254·3	Paddy	332
	West Coast—						
22	Malabar	118·81	5,618	1,769	(i)	Paddy	874
23	South Kanara ..	146·37	4,021	752	(i)	Paddy	582
24	The Nilgiris ..	70·91	990	95	(i)	Potatoes ..	15

Sources—
(a) Figures taken from the Statistical Atlas of the Madras Presidency (1936 Edition).
(b) Figures taken from the Season and Crop Report for 1938-39.
(c) Figures taken from the report on the working of factories in the Madras Presidency
(d) Figures taken from Mr. A. Vipan's Scheme of Road Development for the Madras
(e) Figures taken from the Census Report (Mr. M. W. M. Yeatts, C.I.E., I.C.S.), for 1931.
(f) Separate figures for Agencies (Vizagapatam and East Godavari districts) are not
(g) Figures not separately furnished. Included in the Coimbatore district figures.
(h) Trichinopoly is more akin to the southern districts in many respects than the deltaic
(i) The crop in the whole arable area may be regarded as safe. There are no Government
(j) There are no Government sources of irrigation area protected unknown.

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figures.
in 1938-39.

Industrial.	Area in thousands of acres.	Number of towns with a population above 15,000.	Number of Industrial establishments (seasonal and perennial).	Communications (in miles). Roads.	Communications (in miles). Railways.	Number of agricultural credit societies.	Population in thousands.
(9) (b)	(10) (b)	(11) (e)	(c)	(13) (d)	(14) (d)	(15)	(16) (e)
Groundnut	175	6	105	1,136	282	532	3,608
Gingelly	162						
Gingelly	78	6	66	1,552	108	572	1,921
Coconut	53						
Gingelly	75	2	83	882	122	357	1,223
Groundnut	97	4	119	959	144	399	1,254
Groundnut	249	4	127	1,134	297	383	2,036
Tobacco	116						
Groundnut	369	2	69	1,036	207	270	1,025
Cotton	231						
Cotton	555	3	98	959	226	252	970
Groundnut	289						
Groundnut	348	1	52	1,145	262	403	1,050
Cotton	116						
Groundnut	177	3	38	939	125	278	949
Cotton	57						
Groundnut	99	2	21	1,458	238	230	1,447
Groundnut	305	6	21	1,682	228	665	2,267
Groundnut	107	2	40	2,191	258	513	2,434
Gingelly	50						
Cotton	204	5	256	2,006	151	557	2,445
Groundnut	164						
Castor	41	2	24	1,239	196	380	1,486
Groundnut	38	3	13	1,281	153	779	1,655
Groundnut	333	2	16	1,770	234	656	2,455
Groundnut	57	6	60	2,657	295	884	2,386
Coconut	35						
Groundnut	99	3	49	1,263	184	527	1,913
Gingelly	60						
Groundnut	93	5	60	1,379	185	588	2,196
Cotton	138						
Cotton	213	6	77	806	220	289	1,839
Groundnut	48						
Cotton	285	3	56	1,136	214	481	2,047
Gingelly	57						
Coconut	346	5	116	1,792	214	480	3,534
Coconut	47	1	74	1,467	60	327	1,372
Tea	40	(g)	(g)	(g)	(g)	(g)	169
Coffee	20						

(latest).
Presidency.

available.

one of Tanjore.
sources of irrigation.

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II.—Comparative

Serial number.	District.	Rainfall.		Normal area sown with crops as percentage of total area.	Area irrigated in 1938-39 as percentage of net area sown.	Principal crops (As percentage (b))	
		South-west.	North-east.				Food.
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
		(a)	(a)			(b)	
	Circars—						
1	Vizagapatam ..	(c) 24·7	11·2	46	53	Paddy	33
						Ragi	11
2	East Godavari ..	(c) 129·2	11·7	34	51	Paddy	50
3	West Godavari ..	26·1	9·5	67	72	Paddy	69
4	Kistna	23·8	9·1	54	53	Paddy	47
						Cholam	18
5	Guntur	17·7	11·7	65	19	Cholam	18
						Paddy	17
	Deccan—						
6	Kurnool	17·2	5·9	44	6	Cholam	28
						Korra	22
7	Bellary	14·3	5·6	69	2	Cholam	27
						Korra	25
8	Anantapur ..	10·6	6·0	49	11	Korra	18
						Cholam	14
9	Cuddapah	15·1	10·0	30	11	Cholam	27
	Central—						
10	Chittoor	14·8	13·9	22	31	Paddy	22
						Ragi	18
11	North Arcot ..	17·7	14·9	49	32	Paddy	34
12	Salem	14·9	11·1	40	14	Cumbu	17
						Ragi	15
13	Coimbatore ..	8·7	11·6	49	24	Cholam	26
						Cumbu	18
	Coromandel—						
14	Nellore	11·2	21·8	30	30	Paddy	25
						Cholam	28
15	Chingleput ..	16·2	25·9	49	62	Paddy	68
16	South Arcot ..	16·3	24·8	56	35	Paddy	35
	Cauvery Delta—						
17	Tanjore	12·3	26·5	61	80	Paddy	79
	Southern—						
18	Trichinopoly (f) ..	11·4	14·2	52	21	Paddy	2
						Cumbu	18
19	Madura	8·9	15·2	44	31	Paddy	22
						Cholam	24
20	Ramnad	7·4	20·1	43	26	Paddy	26
21	Tinnevelly ..	3·3	18·2	50	21	Paddy	21
	West Coast—						
22	Malabar	90·8	15·6	49	?	Paddy	48
23	South Kanara ..	126·5	12·1	29	?	Paddy	77
24	The Nilgiris ..	38·3	19·8	15	..	Potatoes	16

Sources—

(a) Figures taken from the Statistical Atlas of the Madras Presidency 1936 (Edition).

(b) Figures taken from the Season and Crop Report for 1938-39.

(c) Separate figures for Agencies (Vizagapatam and East Godavari districts) are not available.

(d) Figures not separately furnished. Included in the Coimbatore district figures.

(e) igures in column (15) are furnished by the Deputy Registrars and they are under

(f) Trichinopoly is more akin to the southern districts in many respects than the deltaic

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figures.

in 1938-39.

of total crop area).

Industrial.

(9) (b)	(10) (b)	Density of population. (11) (a)	Communications in miles per 100 square miles. Roads. (12)	Railways. (13)	Number of agricultural credit societies per 100 square miles. (14)	Percentage of villages affected. (15) (e)	Members of societies as percentage of number of families of rural population. (16)
Groundnut ..	10	434	14	3	7	31	10·1
Gingelly	7						
Gingelly	6	660	25	2	9	36	15 8
Coconut	4						
Gingelly	7	518	37	5	15	61	12·9
Groundnut ..	13	354	27	4	11	50	11·1
Groundnut ..	13	354	20	5	6	46	6·0
Tobacco	7						
Groundnut ..	19	135	14	3	4	38	6·0
Cotton	9						
Cotton	20	..	17	4	4	37	6·0
Groundnut ..	9	170					
Groundnut ..	15	156	17	4	6	45	9·7
Cotton	5						
Groundnut ..	16	160	16	2	5	57	6·1
Cotton	5						
Groundnut ..	19	245	25	4	4	51	2·4
Groundnut ..	29	488	36	5	14	53	6·0
Groundnut ..	9	345	31	4	7	87	10·6
Gingelly	4						
Cotton	11	345	28	2	8	61	9·9
Groundnut ..	10						
Castor	3	187	16	2	5	47	6·0
Groundnut ..	8	535	42	5	25	50	10·2
Groundnut ..	28	583	42	6	16	40	4·7
Groundnut ..	4	638	71	8	24	49	8·2
Coconut	2						
Groundnut ..	9	443	29	4	12	49	8·0
Gingelly	6						
Groundnut ..	10	447	29	4	11	81	8·1
Cotton	10						
Cotton	16	382	17	5	6	12	4·0
Groundnut ..	5						
Cotton	10	474	26	5	11	55	6·9
Gingelly	7						
Coconut	20	610	32	4	9	47	6·8
Coconut	6						
Tea	42	340	36	1	4	72	3·4
Coffee	21	(d)	(d)	(d)	(d)	(d)	(d)

examination. They should be taken with reserve,

one of Tanjore,

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APPENDIX III.

A NOTE ON CO-OPERATIVE HOUSE-BUILDING SOCIETIES.

In the course of our general discussions, some questions about co-operative house-building societies were raised and the following note gives the views of some of us.

Growth of urban population and housing conditions.

In recent years, there has been a comparative growth in urban population owing to a general increase in population, development of industry and trade and rapid extension of communications. The statistical information available in respect of the last census (1931) * shows that the Province's urban proportion was 136 per thousand and was higher than that of the Central Provinces, Bihar and Orissa and the United Provinces, but was well behind Bombay. † The statistics also show that the urban elements had, for the past forty years, been increasing more rapidly than the rural, and the signs of the decade ended 1931 were that the differential rate was on the increase, that is to say, the urban population was increasing more rapidly than the rural population. The question therefore of urban housing has become a matter of great importance. The following table gives in descending order the number of persons per hundred occupied houses for each in the last census:—

Serial number and name of place.	Number of persons per hundred occupied houses.
1 Madras	877
2 Rajahmundry	793
3 Mangalore	727
4 Madura	723
5 Vellore	709
6 Conjeeveram	682
7 Calicut	671
8 Bezwada	637
9 Ellore	622
10 Kumbakonam	603
11 Guntur	589
12 Salem	572
13 Tanjore	562
14 Masulipatam	559
15 Cuddalore	557
16 Vizagapatam	552
17 Coimbatore	534
18 Trichinopoly	529
19 Cocanada	517
20 Palamcottah	443
21 Tinnevelly	419
22 Tuticorin	414

Madras shows well over eight persons per house, Rajahmundry being a good second with close on eight. Madura, Mangalore and Vellore come some distance behind while the Tinnevelly cities figure at the bottom with less than 450 persons per hundred houses. The figures for Madras may be indicative of a higher number of persons than is desirable but before it could be taken as an accurate guide, the street-dwellers and squatters would have to be deducted from the total population used in striking the average. Madura's figure involves to some extent a similar qualification, for to this sacred city of the south wanderers resort in large numbers throughout the year and the numbers of those who have no house and do not desire one is

* Chapter II, Census of India, 1931—Volume XIV, Madras, Part I.

† Number per mille, who live in Madras towns—
1911—118
1921—124
1931—136

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more considerable than is usually realized. Rajahmundry's figure is the most revealing of all, and it may be that a higher degree of effective congestion existed and exists in this river town than in any other city in the Province. The low figures from Tinnevelly and Palamcottah reflect their closer connexion with rural conditions.

Rural housing conditions.

The condition in villages is no better. Seven-eighths of the population living in villages may convey an impression of " wide, open spaces." These spaces exist in plenty, it is true, but by no means always or often within the village. Madras towns can offer some notable examples of congestion and insanitary huddling. It is by no means certain however that the worst specimens of housing in the Province do not come from certain rural areas, notably the wealthy delta tracts on the Circars coast and in Tanjore. Where land is dear, housing tends to be bad and land fetches a high value in delta districts where irrigation is assured. Every foot of ground is grudged to the village-site and even a comparatively well-to-do landowner will exist in a condition of almost squalor that surprises the stranger. If this is so with an actual owner of land it can be imagined what is the condition of the farm labourer who in many cases also belongs to the so-called depressed classes. These people are forced in the villages and often even in towns to live in a hamlet apart. Its site is rarely the most attractive and space is grudged. The ' paracheris ' of this Province may safely be counted upon to produce its worst examples of housing. There is no doubt that one who is familiar with village life in this country is struck with the fact that in most villages the housing, planning, drainage and sanitation are all primitive, that many houses are constructed on low mud plinths or without any plinth at all, that the rooms are darker and badly ventilated and that these conditions are favourable to the spread of disease and mortality.

Housing conditions and public health.

It is seen from a study of vital statistics for 1938 that the death rates for all age-groups in rural areas are less than the corresponding rates in urban areas, except in the age groups under " 1 month " and "5 to 10 years ", which is indicative of the fact that the environmental conditions in rural areas are generally more conducive to healthy life than in urban areas, but that the conditions in the neo-natal period are not favourable in rural areas. The Director of Public Health remarks that 9 per cent of the total deaths in 1938 were due to respiratory diseases, that the mortality rate from this group of diseases in urban areas was 4·60 per mille and that in rural areas was 1·80 per mille and that the high rate in urban areas is, in all probability, due to overcrowding and congestion, which favour the spread of respiratory diseases.

Industrial workers and housing conditions.

The housing conditions of industrial workers have been the subject of recent investigations and enquiry and from a recent report prepared on ' Industrial Labour in India ' by the International Labour Office, we find that the housing conditions of the majority of the industrial workers are deplorable. There is no doubt that the largest number of industrial workers in this Province as well as in other provinces live in dwellings rented from private landlords, most of them small huts or overcrowded tenements. In fact an enquiry into the ownership and a certain number of workers' dwellings in 1930 showed that of the 189 houses in Coimbatore over one half and of the 129 houses in Madras about three-fourths were owned by landlords. The position should have become worse since then. The Royal Commission on Labour in India has remarked that the limitation of space and high land values are responsible for much of the congestion in large cities and that neglect of sanitation is often evidenced by heaps of herbage, pools of sewage, while absence of latrines enhances the general pollution of air and soil. The effects of the lack of sanitation are aggravated by overcrowding in most of the tenements in the larger industrial centres. One of the results of insanitary and overcrowding housing conditions is the high rate of infant mortality. This is also one of the factors which predispose workers to leave their wives and children in their villages when they migrate to industrial centres.

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Urban housing development and municipal control and regulation.

It is needless to state that the municipal councils are responsible for the health of their citizens and that the construction of buildings in municipal areas is controlled by the provisions of the Madras District Municipalities Act and the Madras Town-Planning Act. The Local Government have framed rules for the control of the building sites and for the construction of buildings, wells, house-drains, cess-pools, septic tanks and latrines connected therewith. These rules are intended to guide the local authorities in regulating the construction of buildings in the municipal areas in an orderly manner so as to secure proper sanitary conditions and amenities to the inhabitants of the place. We however find that the municipalities have not yet prepared comprehensive plans for the development and improvement of urban areas. The municipalities or the local authorities, states the Director of Town-Planning, do not appear to have given liberally of their time and study, nor have they employed adequate staff for detailed survey, collection of statistics, study of the defects and the possible lines of improvement and development. We learn that very few councils had separate town-planning funds constituted so far, though the Town-Planning Act provides for it, that even municipalities which sanctioned town-planning schemes had no such funds for town-planning and improvement, and that though the Act has been in force for nearly eighteen years, many executive authorities and councils are even to-day pessimistic about the successful working of town-planning schemes and are for this reason unwilling to notify developing areas under the Act. We refer to these facts only to stress the general apathy of municipal councils towards an important social problem. We need hardly state that if municipal councils take a genuine interest in town improvement and in the formulation and execution of housing schemes, they will render a great social service and contribute towards improved housing conditions and the health of their citizens. We suggest that the Government may bring to the notice of the municipal councils the seriousness of their responsibility in this particular matter and stimulate them by advice and help to take interest in housing schemes.

Government and co-operative house building societies.

One of the great difficulties in carrying out housing schemes in urban areas is the dearth of long-term capital at cheap rates of interest. The rates of interest charged must be sufficiently low and the period sufficiently long to allow of repayment by instalments corresponding to the repaying capacity of those who desire to construct houses. It is only to provide such long-term money and accelerate the construction of houses to relieve congestion in urban areas that Government approved in the ninteen twenties the scheme of co-operative building societies and agreed to finance them for a period of twenty years at reasonable rates of interest. The Government have recognized that financial help from Government in the shape of loans is not only essential but also proper as representing a legitimate contribution by them towards the solution of the housing problem and the relief of congestion in towns. The question was no doubt raised as to whether Government should finance these societies direct or whether, in the alternative, the Government should lend to local bodies who would, in their turn, make loans to building societies. But it was felt that the interposition of an intermediate authority between the Government and the recipients of loans would increase the cost of the loan and it was therefore decided that Government should finance building societies direct. We are glad to record that for about seventeen years now, Government have rendered valuable service for the progress of urban housing in the Province by financing urban classes for construction of dwelling houses through co-operative societies.

Need for continuance of grant of state loans to co-operative house building societies.

We have already referred to the progress of co-operative house building societies in this Province and their general position on 30th June 1939. It is needless to repeat it here. We are informed that the Government have just restricted the annual allotments for making advances to them on account of the abnormal conditions created by the war. In view of

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the great need for increased and better housing in the urban centres in the Province, we do not think it advisable that the operations of house building societies should be curtailed or restricted and the progress in the building of houses retarded by denial of or reduction in the grant of loans to them. It should not be difficult for the Government to find four or five lakhs of rupees a year from the loans they raise in the market and to make provision for this essential social service. We suggest that the Government revise their policy and continue to finance house building societies as hitherto.

Formation of a central building society—an alternative.

The only alternative to the grant of State loans appears to us to be the formation of a central building society, which, we are informed, was contemplated in the year 1935. We learn that the proposal was then turned down by Government partly because the Government continued to make provision to finance house building societies in the Province at cheap rates of interest and there was no need for an intermediary agency and partly because the Government felt reluctant to guarantee debentures to be floated by the proposed central building society, at any rate in its initial stages. We see no reason why the scheme should not be revived and an attempt made to finance primary building societies through a central society, tapping private capital in the open money market, though we think this may tend to increase the cost of loans to the borrowers. If this were to be ultimately decided upon, we are of the opinion that, until the central society reaches a stage of financial stability and independence, the Government should guarantee its debentures to ensure confidence among the investing public. We consider that it is also necessary to give it financial assistance by way of subsidies and staff until it can stand on its own legs.

Can the lower middle and poorer classes take full advantage of the existing facilities?

We have indicated in paragraph 50 of the report that though originally these societies were primarily intended to help the poorer and middle classes, in actual working loans have tended to be given to the upper middle or middle classes including a fairly large number of Government servants and salary earners by reason of the greater security which these classes have been able to offer by way of substantial buildings they can erect both with their own resources and the loans obtained from Government. We gather that the poorer or the lower middle classes who fall in low-income groups (i.e., low paid Government or local board servants, wage-earning artisans and others) cannot take full advantage of the facilities offered by co-operative building societies. Their income is low, and any unforeseen demands on their budgets would easily upset their calculations with the result that they cannot keep up their obligations; the mortgages are foreclosed; houses are sold and Government arrears are realized. We find on analysis that about 25 per cent of borrowers in the income group below Rs. 50, 16 per cent of those in the income-group between Rs. 50 and Rs. 100 had to sell, transfer or mortgage their houses to others either because of their prior debts which prevent regular repayment of instalments, lack of adequate income or dearth or in some cases high price offered for the house, while the next high income-groups show about 6 to 3 per cent respectively.

Individual ownership *versus* co-partnership tenancy.

It has been suggested that the middle or upper middle classes falling in high-income groups may be encouraged to build and own houses by the supply of long-term money through co-operative building societies as hitherto and that as regards the low-income groups, some alteration in existing arrangements may be necessary. We have already referred to the fact that in Madras there has been a preference for individual ownership system of co-operative building societies as distinguished from co-partnership system. The latter system has been developed elsewhere on two lines. In one the member simply remains as a tenant of the society which has built the house and leased it for longer or shorter period to the member. In the other, the lease is subject to the condition that on the expiry of an agreed period in which the member has paid rent, the house becomes his property. The latter is, in fact, a form of hire purchase.

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Whatever might have been the reasons which favoured the individual ownership type of co-operative building enterprise in Madras, we see no reason why, so far as the lower-income-groups are concerned, the co-partnership system should not be tried with advantage. The preference of the Madrasis for individual ownership system as distinguished from flats seems to have been based on the following grounds:—

(i) It is generally found that an individual can build a small house more cheaply than a society, and he can build it to his own plan exactly as he wants it himself while the society building a number of houses has to build them on a general design.

(ii) It is not usually possible for the directors of a soceity to supervise a contractor as well as an individual member; and there is not the same personal interest in the construction.

(iii) The payment of instalments of a loan can be enforced by attaching the house while the enforcement of the payment of rent is not easy.

It has been pointed out to us that these arguments are of doubtful validity and that the grounds in favour of other types of co-operative housing have not been fully considered.

The third argument does not appear to be correct; and even if it were, it is hard to see how a member of a co-operative society or a co-operative society is benefited by the attachment and sale of a house which the society does not wish to own and cannot force others to buy at a fair price. The eviction of a tenant member is unpleasant, but does not cause any loss of investment to either party. It may be assumed that default will not be wilful. If the defaulter cannot pay, he loses the house itself in either case; but while as a tenant he loses nothing else, as an owner he risks losing quite a substantial slice of his capital, especially in times of depression when real estate values are falling.

The first and second arguments are reflections upon the organization and management of societies which have failed to build cheaper and better than private individuals, but are not necessary truths. We think that the whole theory of division of labour must be wrong if an individual who does not regularly and professionally build houses can exercise better supervision and secure better work at lower cost than a business organization whose business it is to build houses. Experience in other countries is all on the other side; individual supervision is ineffective and makes for higher costs. Individual interest stimulating the architect and builder is a different thing; and there is no reason why members of co-operative societies should not follow with keen interest the construction of houses in which they are going to live.

It is true that the people would like to have a say in the design of their houses. Sometimes this results in ugly and inconvenient houses. It is possible to improve the standard of taste and comfort, teaching the members of building societies to appreciate the work of the best architects and decorators. It is at least as important to secure better design and planning in the houses of the people as to humour idiosyncrasies. It is not true that a society has to build on a general design. A society can save a certain amount in architects' fees by using type designs; but in general there is little obstacle to variety.

It may be true that the Madrasi likes a separate house. This is however an argument against the flat rather than against tenancy. It may be equally true that the Madrasi likes to own his house. This means that Madrasis should be enabled to own their own houses, *as far as possible*. This reservation is important. Experience and observation show us that where the instinct of ownership is strong, men in their anxiety to secure land and houses will sink their savings and credit earlier and further than they should. It is no real kindness to the middle and poorer classes to indulge an overgrown desire for property, even when the desire has a very natural and valid justification in the sense of security against exploitation and victimization, that is afforded by the ownership of a house or a little land. The way to ownership should be made as easy as is consistent with (1) the surplus of income over unavoidable expenditure of the would-be owner and (2) the security of those who stand ready to help him with cash and credit.

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Is the individual ownership system all that is desirable?

The arguments against individual ownership include the following:—

(i) The purchase of a site and house absorbs a large proportion of a middle-class or poor family's savings with the result that its working capital and reserve are unduly depleted or that it finds itself unable to repay the instalments regularly.

(ii) By becoming the owner of a house a single family undertakes a risk it is not competent to bear in times of economic fluctuation, when income may fall but instalments and taxes are not reduced, and the value of the house in the event of sale may prove less than the investment made in it.

(iii) The society which merely lends money for house-building operates on long-term loans, which are difficult to secure in any great amount and are in this Province obtained with difficulty from Government, and not at all from financing institutions, so that the volume of credit is limited and the longest period of amortization is twenty years (which makes instalments large—impossibly large for most of the families requiring housing); while the society which goes into business like a private landlord can operate on share capital, short-term loans, and the revolving fund of incoming rents, in the same way that the speculative builder and private building company do, amortizing the capital cost over the whole life of the building (sixty to a hundred years) by a depreciation fund (which allows very easy payment).

(iv) The house-owning member cannot undertake maintenance and repair in as thorough and efficient a manner as a society responsible for a large number of houses.

Correct approach towards the problem.

It is urged that the whole approach to housing is vitiated by regarding houses as primarily property. The essential aim is to provide space and convenience at a price which bears a proper relation to people's income. The secondary object is to enable people to become owners of house property for the sake of economic and social security. Possibly both can be well combined. Private enterprise has not so far interested in housing schemes of this kind, though there is no reason to consider that housing on these lines will not be profitable. Anyhow, it seems that the sluggishness with which public funds move into housing in the Province and the reluctance of even the most prosperous municipalities to engage themselves in this essential service force one to consider some method of making housing a business proposition and finding funds competitively in the market.

We find that similar efforts have been successfully made in Bombay (for example, the Saraswath Co-operative Housing Society in Bombay) Dharwar and other Bombay cities. An essential feature of the development of co-operative housing in Bombay has been that the houses form one settlement in one compact area. The regulation of the settlement rests in the hands of the managing committees of societies and the outward form to which they tend is that of a garden city with clubs, playgrounds and joint amenities for all their members. We learn that the communal tie has been a common characteristic as regards membership of this type of housing societies and that this basis of organization has been found to be very suitable, because the housing society apart from providing housing accommodation is also intended to provide, as we have just stated, social amenities and these can best be achieved where there is a bond of common habits and common usage among the members.

Possibilities of co-partnership tenancy (or tenant-ownership) in Madras.

We are not sure if the possibilities of development of co-operative housing on these lines have been fully explored in all important urban centres of the Province. We think co-operative effort in this direction has an advantage over private enterprise because the co-operative society builds for a definite ascertained demand, namely, that of its members. It is concerned to provide a service and cover its cost but not to secure profits. It can ascertain what kind of houses the members want to build, their circumstances and ability to pay and cater exactly for their tastes. It can secure perfectly harmonious relations between the members as tenants and the

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members as landlords in their corporate capacity. It can give the tenant members a security and freedom from arbitrary interference almost as great as that of owners combined with a freedom from economic risk very much greater. It can arrange to share the responsibility and risk of ownership with its own members.

What we visualize is a society formed of members who hope and intend eventually to become owners of their houses but are content to be tenants for longer or shorter periods. It should arrange for the purchase of long (say 99 years') lease of building land and lay it out with roads, playgrounds and the other requisites of a residential area. It should employ architects and contractors. But for every individual house it should secure one particular prospective tenant (owner) who is entitled to instruct the architect and supervise the builders in the name and with the aid of the society in consideration of his executing any one of the several forms of contract, viz.—

(*a*) A tenancy contract or lease for a specified number of years not less than twenty;

(*b*) A tenancy contract for the term of his life;

(*c*) A fixed instalment hire-purchase contract;

(*d*) A tenancy contract with payments to a purchase fund, the ownership to pass as soon as the amount at credit in the fund (which will bear interest at deposit rates) is equal to the depreciated value of the house (i.e., to the balance of the capital cost to be amortized);

(*e*) A purchase agreement financed by the society.

We think that the flexibility of the arrangement suggested should enable co-operative housing societies in all important towns and cities to cater for a wide variety of demand and that the certainty of income from rents paid by willing members (bound by long contract) should make their financing an attractive proposition to banks, insurance companies and the general public. We think that with the addition of a market for housing debentures and an introduction of the system of insurance of unpaid balances by members, the operations may be conducted with a maximum of facility and a minimum of risk.

What we really feel is that co-operative housing must cater for many different kinds of co-operators in towns with local peculiarities. The wealthier may be wisely advised to buy sites and houses outright. The middle-class co-operator may do better with long lease and option to buy. Poor co-operators who may not reside permanently in one place want better and cheaper accommodation to rent. This is a line of investigation which, we hope, will be taken up in the immediate future.

Housing schemes for industrial workers.

In paragraph 50 of our report, we have referred to the recent attempts made to promote housing schemes for industrial workers on a co-operative basis. This is an enterprise which deserves all the encouragement and support which the Government, the Co-operative Department, the local bodies and the employers can give it.

The employers of industrial labour can help their workers to build their own houses by way of grant of land or supply of building material free of cost or advance of money at a reduced rate of interest. We notice that the method of granting land and building materials is the one generally adopted by plantation managements and that it is also sometimes adopted by factories. We think collective action by workers in providing housing will prove fruitful of results. In fact, the Royal Commission on Labour in India has recognized the value of co-operative endeavour in which the employees work hand-in-hand, because through co-operative organization the question of providing decent and sanitary accommodation to industrial workers is not only effectively solved, but it would also inculcate thrift and foster self-reliance among workers.

Co-operative housing schemes for industrial workers in this Province may follow more or less the lines on which societies are formed in Coimbatore, Madura and Ambasamudram. We suggest that co-operative housing

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schemes for the benefit of industrial workers may be based more or less on the lines indicated below:—

(i) The Co-operative housing scheme might be for the benefit of industrial population in general, colonies being started where there is need for relieving congestion. Or, it might be for the workers of a particular factory or mill, employing large number of hands. If Government lands suitable for house-building are not available, the promotors might get suitable lands acquired under the Land Acquisition Act, the employers bearing the cost. After the land is secured, the Municipality should come to the aid of the scheme by helping the preparation and lay out the land, with roads, streets, lanes, etc. Provision should also be made for water-supply, drainage and lighting. Suitable blocks of houses, on approved type-designs, should be built, with an eye to provide the maximum room and sanitary and other facilities, but so as to keep the cost of each house below Rs. 400 or Rs. 500.

(ii) The share-capital of the society should be subscribed by the employers. The scheme might be taken up in units—each unit to provide say 50 or 100 houses—and a second unit to be launched after the first is completed and all the houses occupied. One-fifth of the total estimated cost of acquisition, lay-out, building houses and provision of sanitary and other facilities should put in as share capital. The employers might advance as a loan the balance of four-fifths either as an interest-free loan repayable from 10 to 20 years, or as loans carrying a low rate of interest, not exceeding 3 per cent. (The Government might, if necessary, also help the scheme by issuing loans at low rates of interest.)

(iii) The rent due by workers occupying the tenements should be recovered by deductions from their wages, suitable provision in that behalf being made under the Payment of Wages Act. The rent should be sufficient to cover—

(1) repayment of principal due on loans borrowed by the society;

(2) payment of interest due on it;

(3) expenses of municipal amenities like water-supply, drainage, lighting, etc.

(iv) Any worker who has paid off completely the cost of the house at the end of 10 to 20 years should be made absolute owner.

(v) The management of the society should vest in a Board consisting of representatives of (1) the employers, (2) members who propose to occupy the houses, (3) the Trade Union, (4) the District Board or the Municipality, and (5) the Collector; where, however, the Government advances the loan required the Board should contain one or more nominees of the Registrar of Co-operative Societies. It may co-opt authorities of the Engineering and Sanitary Departments, if necessary.

Need for a Rural Housing Policy.

We have already referred to the question of overcrowding in villages and the insanitary dwelling conditions. The Public Health Commissioner with the Government of India has drawn pointed attention to this matter He says:

> "There is, however, the larger problem of improving the homes of the vast rural population of this country, a task which will tax the energies of provincial governments and local boards for many years to come even if they begin work now. The improvement of housing brings authorities up at once against various difficulties including finance, administration, ownership of land, undesirable habits of the people and numerous other social and economic factors which may all interfere with progress."

The problem of rural housing is at once vast and complicated but this should not deter Government and the departments concerned from formulating and pursuing an active rural housing policy. We are aware in this connexion that in March 1937, the Government amended the Madras Land

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Improvement and Agriculturists' Loans (General) Rules, 1933, providing for the grant of loans to the ryots from Rs. 500 up to a maximum of Rs. 2,000 for the construction of new dwelling houses in rural areas on the primary security of the land owned by the applicant and the additional security of the site and the building constructed thereon with the aid of the Government loan. We learn, however, that the scheme was not popular and that out of the budget provision of Rs. 40,000 for 1937–38, hardly Rs. 10,000 were utilized and that out of Rs. 80,000 provided in the Budget for 1938–39, not even Rs. 3,000 were spent. This is undoubtedly disappointing. We are not aware of the reasons for the failure of the scheme but we gather that on the suggestion of the Board of Revenue, the scheme was dropped altogether in October 1939. We suggest that the matter may be re-examined in greater detail in order to ascertain whether with any modifications, the scheme may not be made popular.

We suggest further that the Government should get short pamphlets in the language of the tract prepared on the principles of house planning, etc., as applied to village conditions and that they should be widely circulated among villagers through the Revenue Officers and the supervising and inspecting staff of the Co-operative Department. We consider also that it will be desirable that plans of a model village and type-designs of houses suitable for different classes of agriculturists are prepared by the public health authorities and brought to the notice of villagers. Propaganda and education are essential pre-requisites to a rural housing policy.

Housing for the Poor and Depressed Classes.

Sri J. Sivashanmugam Pillai feels that housing schemes for the poor and the depressed classes can be undertaken profitably on a co-operative basis. In the City, house-sites in most of the slum areas are owned by private persons. The residents are at the mercy of the landowners, who often serve notices on the residents asking them either to buy the land on which they have built their houses or to sell away the houses. The residents, being poor, are not in a position to buy the land, nor are they willing to part with their houses. In some cases the landlords raise the rents exorbitantly. The residents partly out of ignorance and partly out of fear of incurring huge "court cost" refuse to take advantage of the provisions in the City Tenants Protection Act. It is suggested that the Government may buy the sites, if the residents so desire, and to collect from the residents the amount paid to the owner by monthly instalments in a period of 20 years. The sites and the houses will be the security for the money paid by the Government. Mr. Sivashanmugam considers that through this means the poor people will be freed from the clutches of the landlords and will be enabled to become the owners of the land ultimately.

The Town-Planning Act sets apart certain vacant lands in Madras as places fit for hutting grounds. In this City, evictions by landlords being numerous, the poor residents desire to settle in some "hutting ground," and as they are not in a position to buy the land assigned as "hutting ground," they desire the Government to help them buy the land. It is suggested that the Government may help such men to buy the land and to put up huts. The land and the huts will be under usufructuary mortgage with the Government. It is possible to collect the price paid for the purchase of land from them by easy monthly instalments. The financing must be done by the Government through the Labour Department. We commend these proposals to Government for consideration.

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APPENDIX IV.

Speech delivered by the Hon'ble Mr. V. V. Giri, Minister for Industries and Labour, while opening the proceedings of the first meeting of the Committee on Co-operation held in Madras on the 18th April 1939.

Sir T. Vijiaraghavacharya and Gentlemen,

It gives me great pleasure to meet you and welcome you to-day and before you settle down to your work, permit me to say a few words on behalf of the Government. Let me say at once how much Government appreciate the willingness with which the Chairman and members have agreed to serve on the Committee and the great personal sacrifice and discomfort to which you have put yourselves in undertaking the journey to Madras during this part of the year. The Government are looking forward with expectation to your deliberations and I am sure that notwithstanding the heat, you will find your stay in Madras enjoyable and your work pleasant.

2. It is needless for me to state how much importance the present Government attach to the co-operative movement as a vital factor in the rebuilding of our countryside and a solvent of the many economic troubles from which our villagers have suffered and are still suffering. As the members of the Committee are undoubtedly aware, a Committee was appointed by the Government in 1927 to examine the progress made by the co-operative movement in this province since the Maclagan Committee's Report and to suggest suitable measures for effecting necessary improvements. The recommendations of that Committee were given effect to as far as possible, but since then there have been considerable changes in the economic world which have had serious repercussions on the co-operative movement as well. The single major factor which affected the lives of men and countries and which has been world-wide in its scope and unprecedented in its character, has been the economic depression which, so to say, shook the foundations of agricultural economy in every clime and country, and it has given rise to a number of economic problems for which economists, statesmen, administrators and politicians have been attempting to find a solution. The co-operative movement being essentially economic in character, has not escaped the effects of this depression and has found itself in great difficulties. On one side, it has had to face difficulties in the recovery of advances from members (most of whom are agriculturists) without undue hardship to them and consistently with the low agricultural prices and their reduced paying capacity; on the other, it has had to regulate its loaning policy with an unusual degree of caution and circumspection. In other words, there was a justifiable fear of the loans getting frozen if adequate steps were not taken for their prompt realization; while the restriction of the fresh operations of co-operative banking organizations, if carried to an extreme, appeared likely to result in the stagnation of the movement. Co-operators and co-operative institutions have had to reconcile both these factors as best as they could, and in this process of readjustment, difficulties have begun to manifest themselves. They have been faced during the last few years with problems arising out of the increasing overdues, frozen debts, execution of awards and decrees and the consequent taking over of landed properties with the attendant difficulties of their management and resale, liquidations, etc. These conditions make it clear that co-operators have to adopt new methods of approach towards matters connected with the movement and that a new orientation of the movement is called for to meet the situation created by the economic depression.

3. The problem of the relief of agricultural indebtedness, apart from the question of supply of current capital to agriculturists, has become acute during this period, and the Government attempted in the past to meet the situation by the promotion of co-operative land mortgage banks and constitution of about half a dozen debt conciliation boards. But as these remedies did not prove very effective and the extraordinary times called for extraordinary measures, one of our first acts after we took up the reins of Government was the passing of the Madras Agriculturists'

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Relief Act in order to afford the much needed relief to the agricultural debtors in our province. Recently, we also constituted debt conciliation boards at the rate of one board for each revenue division except the Nilgiris. The operations of the Madras Agriculturists' Relief Act have had repercussions on agriculturists and rural credit generally and the operations of the debt conciliation boards on an extended scale may give rise to new demands which will have to be provided for. The need, therefore, for consolidation and strengthening of the co-operative financing system and its reorganization with a view to make co-operative societies and land mortgage banks serve the needs of the agricultural population more effectively than at present, particularly in regard to relief of indebtedness and financing of cultivation and the improvement of co-operative methods to increase the return from agriculture is now more pressing and insistent than at any time in the past.

4. There has been recently an increasing realization that co-operative credit alone unaided by other allies such as better living, thrift, rural reconstruction and agricultural marketing, cannot go as far as one would desire. There is a feeling that though the co-operative movement has for its achievement the cheapening of the cost of credit, it has not done much to stimulate thrift and savings amongst agriculturists or artisans and men of limited means. As one recent writer says, ' it is a lamentable fact that in most cases thrift is a sleeping partner '. The recent economic depression, the rigours of which we still feel, has taught us the lesson that the problem of agricultural credit cannot be tackled merely by increasing facilities for borrowing but that its solution lies in providing facilities for increasing agriculturist's resources and making him cultivate the habit of thrift. The Government are anxious to devise some satisfactory arrangements by which the habit of saving amongst the poorer classes of people can be promoted and encouraged. This necessarily postulates not only avoidance of wasteful expenditure but also promotion of measures calculated to increase the earning power. Co-operative organizations are being looked upon in an increasing degree as powerful factors of rural uplift and reconstruction and how far they can be harnessed for the maximum good of the maximum number of villagers at minimum cost is again a matter on which the Government would like to have the benefit of the suggestions of the Committee. Agricultural marketing has assumed great importance, in recent years, and co-operators have begun to realize the importance of the valuable link between credit and marketing, to ensure satisfactory results both from the point of view of co-operative institutions and of their members. The transactions of loan and sale societies, in recent years, have considerably increased but the results, however, on the marketing side do not appear either satisfactory or impressive, and how far and in what manner co-operative marketing can be accelerated and what kind of co-ordination, if any, is possible between the co-operative department and the marketing section of the Agricultural department both in the interests of economy and efficiency, are matters which need examination.

5. I am sure that most of you are interested in the work of the All-India National Planning Committee. It is needless for me to say that the Committee is very anxious to give, in any scheme of industrial development of the country, a proper place for cottage and subsidiary industries. The opinion is more or less general that agriculture is a deficit economy and that means must be found to supplement the income of the agricultural population. The Government are desirous to know how far and to what extent co-operative methods can be successfully adopted to promote cottage or subsidiary industries. There seems to be some anxiety in certain quarters about the effect of any planned economy on the co-operative organizations. Let me assure you, that in any planned economy formulated by that Committee no measures will be taken which will favour private capitalist undertakings at the expense of co-operative institutions or retard in any way the growth of the co-operative movement.

6. More recently, various proposals have also been made by the Agricultural Credit Department of the Reserve Bank of India and by others for a radical change in the co-operative structure such as the formation of multi-purpose societies and banking unions. The Government notice

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that opinion in regard to these proposals is divided and they consider that it is necessary that these suggestions should be examined in detail in order to see how far they can be adopted in the present-day conditions and to meet the further expansion of the movement in this Province.

7. Lastly there are important matters in regard to audit, supervision, co-operative propaganda and education, which have been agitating the minds of some of the co-operators and on which also difference of opinion seems to exist.

8. Gentlemen, I have just indicated in the broadest outline some of the matters which are of great consequence to the co-operative movement and in regard to which it has been the intention of the Government to obtain the expert opinion of the Committee. Such periodical stock-taking of a growing movement like the co-operative movement is, I consider both necessary and desirable.

It is a matter of common knowledge that for some years the Government have been engaged in studying the various changes necessary in the co-operative law and as you are all aware these changes have also been drafted. The Government requests you to go through the changes and offer practical and useful suggestions to enable them to introduce an amending Bill as soon as possible.

9. A word about the procedure the Government thought it best to follow may not be out of place. The Government appointed a Special Officer who was asked to gather all possible and available material from every source. The questionnaire he prepared and examined by the Government was carefully scrutinized by some co-operators who were easily available before it was issued. The mass of written evidence obtained is printed in three bulky volumes. If after a careful perusal you come to the conclusion that certain aspects are not covered by the questionnaire or the information collected is insufficient, you are at perfect liberty either to call for it or elicit the same in oral examination. The Government feel, the procedure adopted, though it may appear novel, has the merit of saving time and energy and will enable the Committee to get through its work without undue delay.

10. You will all agree we are fortunate in securing the services of Sir T. Vijiaraghavachariyar as the Chairman of the Committee, and on behalf of Government I thank him whole-heartedly for the readiness and the spirit of sacrifice with which he has agreed in the midst of his other work to give his services in the interests of the movement which is bound up with the welfare of a large class of people of his own Province. Though old in age he is young in spirit; he has travelled far and wide in Europe and America and has thus an intimate knowledge of the economic conditions not only of this country but of other countries as well; with his shrewd commonsense and knowledge of men and things, he combines tact and humour which most of us would envy; and I am sure that with him as Chairman, you will find your deliberations not only serious, but pleasant.

11. About the other members of the Committee I need not say much. The Government have intended the Committee to be representative of all shades of thought and opinion and there are amongst the members, leaders of the movement, administrators—past and present—businessmen and men of public affairs and an expert on economics. The Government feel no doubt that the issues arising will receive fullest consideration from all points of view and that your decisions will be informed by the idealism of co-operators, reconciled with the exacting requirements of businessmen, moderated by the practical considerations of administrators, harmonized with the economic theory of the professor and will be broad-based on the popular demands of men of public affairs and let us hope that the conclusions of the Committee as they finally emerge will be valuable both to the Government and the people at large.

I once again offer you my thanks.

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APPENDIX V.

QUESTIONNAIRE.

General.

1. (*a*) Do you think the Co-operative Movement in the Province has developed on sound and efficient lines?

(*b*) To what extent has the movement been able to reduce the indebtedness of the ryots? Has it improved the economic and moral condition of the members?

2. What part has the movement played in the general scheme of debt relief undertaken by Government in recent years and in what directions do you think that it can play a more useful role in this regard?

3. What effect has the working of the Madras Agriculturists Relief Act had on rural credit generally; and how far are co-operative banking institutions helpful to the small agriculturists in the provision of necessary credit?

4. How far has the movement been able to withstand the effects of the economic depression and have any parts of co-operative organization shown signs of weakness, which, in your opinion, require strengthening or remedial action?

5. What suggestions have you to make for a sound expansion of the movement in the Province?

6. How far and in what directions can the co-operative movement be of help to the agriculturists in the zamindari areas of the Province?

7. Do you think that there is enough co-ordination of activities between the Co-operative Department and other departments of Government such as Agriculture, Industries, etc.? Can you suggest ways and means whereby better co-operation of these departments can be ensured?

8. Do you think that better results will be achieved if agricultural demonstrators and officers carry on their work, as far as possible, through co-operative organizations and give the benefit of their advice to a larger number of ryots?

Finance.

9. Have you any suggestions to make on the present methods of banking carried on by the co-operative financing agencies? Have you any concrete proposals to make to strengthen them?

10. How far do you agree with the recommendation of the Reserve Bank that loans in societies must be strictly limited to cultivation finance including such other purposes as the maintenance of the farmer's family or the replacement of cattle or implements provided such loans can be repaid out of the proceeds of the harvest and that, in any case, such loans should not extend beyond two years?

11. Are you in favour of the continuance of the present policy of central banks and rural credit societies confining their business to short-term loans (not exceeding twelve months or in some cases eighteen months) and intermediate loans (extending to a period of about six years)?

12. The present policy is that the central banks confine themselves to short-term and intermediate loans while the land mortgage banks cater to the long-term credit needs of the ryots. Do you suggest any modifications in respect of the purposes, periods and methods of finance by these two kinds of agencies?

13. Is it necessary or sound for the central banks to invest their funds in long-term loans in societies (not exceeding ten years) for the liquidation of small prior debts of members? Will there be any conflict between the central banks and the land mortgage banks?

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14. If ten-year loans are permitted to be given by central banks, will not the present methods of raising funds by them require alteration?

15. Do you suggest different methods for raising funds required for different purposes—short-term, intermediate and long-term?

16. Is it desirable that central banks should lend directly to individuals on the pledge of gold or agricultural produce or industrial products?

17. Is it desirable that central and urban banks should undertake commercial transactions (such as discounting of bills and hundis, etc.), and if so, to what extent and under what conditions?

18. What suggestions have you to make to ensure closer contact and mutual understanding between Co-operative and Commercial Banks? What is your opinion on the suggestions that co-operative banks make greater use of commercial banks of standing for the investment of their surplus funds as well as for getting credit from them on Government paper or otherwise and that commercial banks might utilize co-operative banks for the collection of bills, etc., in small places where there are no branches of their own?

19. Do you consider that a definite proportion as between short-term and intermediate loans should be laid down in the by-laws of primary societies with reference to their maximum borrowing power?

20. Have you any suggestions to make as to the supply of long-term needs of the ryots in the areas not served by the land mortgage banks?

21. Can their needs be effectively met by the grant of loans through the Revenue Department under the Agriculturists' Loans (Amendment) Act?

22. Do you think that co-operative agency may be employed for the disbursement of State loans to the ryots in such areas and if so, what facilities and safeguards are required for the efficient carrying out of this business?

23. Do you think that there should be co-ordination between the Government departments and the co-operative institutions in the supply of rural finance, e.g., takkavi loans and loans under the State Aid to Industries Act and loans by the primary credit societies and Land Mortgage Banks. By what means and in what manner can such co-ordination be brought about?

24. (*a*) Do you think that the present rates of interest paid on deposits and loans by central banks and the rates at which they lend to societies and the latter to their members are reasonable or cheap? Is it possible to reduce them further and if so, by what means?

(*b*) Is the margin between the borrowing and lending rates of primary societies and central banks too big? What margin will you fix for the two classes of societies with due regard to their needs as to efficient management, reserves, etc.?

25 Under what conditions and to what extent is it desirable that primary societies should accept deposits? Can they accept savings, current, recurring and short-term fixed deposits?

26. Do you think that a change is called for in the present system of investment of reserve funds of primary societies in central banks?

The Madras Provincial Bank and Central Banks.

27. Have you any criticism or suggestions to offer on the present structure, constitution and management of the financing system in the province (i.e., the provincial and the district co-operative central banks)?

28. Is any representation of depositors on the directorate of the provincial and central banks necessary (either by nomination or by other means)?

29. Do you consider that in order to ensure better business methods in the working of the central banks, representation of commercial interests is necessary on the Boards of Management of central banks?

30. Do you consider that the existing central banks in each district may continue or that it should be insisted that there should be only one central bank in each revenue district?

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31. Do you think that the opening of branches of central banks in important district centres will facilitate collection work and render greater help to sale societies?

32. Are you in favour of the formation of small banking unions extending over a limited area of one or two revenue taluks and confining their membership to primary rural societies?

33. (*a*) Is such an arrangement calculated to the financial strength of the movement and economy of management of financial institutions?

(*b*) Can such banking unions serving a small area afford to maintain qualified and efficient staff for their management?

(*c*) What will be the effect of the constitution of banking unions generally on the borrowing and lending rates?

34. Do you think that the formation of banking unions confining their membership to rural societies and eliminating individual shareholders will ensure efficiency of management and infuse confidence amongst the investing public?

35. Do you think that the management of banking unions by the directors, representing only rural societies, will result in over-financing and undue leniency in the matter of recoveries?

36. It is suggested that the formation of small banking unions might ensure better supervision of societies and closer touch with their working and that the interests of the agriculturists will receive fuller attention. Do you agree with this view?

37. (*a*) It is suggested that the district central banks might be amalgamated with the Madras Provincial Bank and branches of the Madras Provincial Co-operative Bank might be constituted in order to eliminate what is considered as intermediary agencies between the primary societies and the Provincial Bank.

(*b*) The other suggestion is that taluk banking unions, if formed, may themselves be treated as branches of the Provincial Bank. What are your views about this arrangement and do you think that this will ensure better results by way of supplying cheaper money to the ryots and economy of management than the financing structure as at present constituted?

38. (*a*) What do you think will be the effect of this arrangement upon the existing central banks?

(*b*) Is it, in your opinion, possible to split up the district central banks into banking union or to constitute them into branches of the Provincial Bank?

39. What effect has the present restriction of the acceptance by the central banks of deposits of local bodies had on the finances of central banks? Do you suggest any relaxation in the present limit, viz., that the total deposits of local bodies accepted by central banks should not exceed the amount of their paid-up share capital? Is the discretion given to the Registrar to raise or relax the limit adequate to meet the requirements of the situation?

40. In order to prevent over-capitalization, is it desirable or sound to refund or adjust the share capital of societies to their loan accounts? If so, under what conditions should it be refunded or adjusted?

41. In view of the present money rates is it not necessary to fix the maximum dividend payable on shares at a rate not exceeding 5 per cent? Are there preference shares in your bank? Do you think that the payment of preferential dividend is justified under present conditions?

42. Are the central banks maintaining the prescribed standard of fluid resources regularly? What are the reasons for the deficiency, if any? Are the present standard and arrangements for the maintenance of fluid resources adequate? Do you suggest any modifications? If so for what reasons?

43. What are the principles on which loan applications are sanctioned by central banks? And what tests do they apply for examining the loans recommended by societies? Do they examine the adequacy of security, the income, repaying capacity, etc., of the individual borrowers? Have you any suggestions to make in this regard?

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44. It is suggested that mortgage securities should be insisted on for loans exceeding Rs. 100. What is your opinion on this (particularly in view of the amendment to the Civil Procedure Code restricting arrest of the judgment-debtors except on proof that he obstructs or delays execution or is likely to abscond or has transferred or concealed his property or that he has wilfully neglected to pay though he had the means to pay the decretal amount or any substantial part thereof)?

45. Have you any suggestions to make on the qualifications, methods of recruitment, conditions of service, etc., of the several classes of employees such as secretaries, executive officers, managers, accountants, shroffs, clerks, etc., in the central banks?

46. How far have the rectification schemes been helpful in the revival of bad and moribund societies affiliated to central banks?

47. Have all bad debts in societies been adequately secured? If not, what are the difficulties met with and what facilities do you require to effectively secure them?

48. What is the number of societies affiliated to your bank which have not borrowed for over two, three, four and five years and what steps have you taken to pull them up and to make them useful to the ryots?

49. Do you think it is sound or desirable that the central banks should continue financing societies when the entire or a major portion of loans due to them are in arrears? If so, under what conditions and terms should such loans be advanced?

50. (*a*) Are your short-term deposits adequately represented by short-term investments by way of loans, etc.? (Please furnish details.)

(*b*) What is the percentage of long-term, intermediate and short-term loans to the total investments made by the central banks in the societies and how do they compare with the short-term or long-term resources of the banks?

(*c*) Is it desirable to fix a proportion between short-term and long-term (intermediate) loan business in central banks and if so, on what basis should it be done?

(*d*) Do you think that it is sound to utilize short-term deposits for the grant of intermediate loans and if so, do you fix a limit?

51. What is the proportion of deposits renewed every year to the total deposits in the bank and what is the proportion of deposits paid in cash to the total collection in the bank?

Primary Agricultural Credit Societies.

52. (*a*) What criticism have you to make on the present constitution and management of agricultural credit societies?

(*b*) Do you suggest any reorganization or remodelling of these societies so as to make them more effective and useful as suppliers of rural credit?

53. Are not the objects of agricultural credit societies, as embodied in their by-laws, sufficiently comprehensive to enable them to undertake items of work other than credit?

54. For what reasons have the credit societies not been able to carry on joint sale, joint purchase and other activities permitted under the by-laws? What suggestions do you offer to promote them on a large scale?

55. (*a*) Are you in favour of the formation of multi-purpose societies with their area of operations covering groups of villages and having as their object the satisfaction of all the needs of the ryot, viz., credit, purchase of farming implements and domestic requirements, sale of agricultural produce, cattle-breeding, better farming and better living, etc.?

(*b*) If so, on what basis should they be started—unlimited liability, limited liability or liability limited by guarantee?

(*c*) Can such societies undertake the advancing of loans on the pledge of gold and silver?

(*d*) What will be the effect of the formation of such societies on the present structure of primary rural credit societies?

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56. Is it possible to amalgamate the existing societies and extend their area of operations and sphere of business so as to obtain better human material and to enable paid staff being employed?

57. (*a*) Has the unlimited liability prevented many people from joining the societies?

(*b*) Do societies suffer by the absence of such persons?

(*c*) Will you alter the nature of the liability and make the societies limited? And do you think that the persons who now keep aloof will join the societies if the liability is changed?

58. Do you think that the rural credit organization based on limited liability will inspire confidence among the investing public and facilitate the inflow of funds into the movement?

59. (*a*) Have you any suggestions to make with regard to the efficient writing up and maintenance of accounts of primary credit societies and mode of payment for such services?

(*b*) Is the existing system of payment of honoraria to office-bearers of societies working satisfactorily? Do you suggest any alteration?

60. Are you in favour of the appointment of group clerks for a small number of societies?

61. Are there any instances of the office of the president, secretary or the panchayatdar being unduly appropriated by the same persons for a long period and if so, has it been disadvantageous to the societies? What safeguards would you suggest to prevent this?

62. (*a*) Are you satisfied with the arrangements in force in primary credit societies for the mobilization of funds and disbursement of loans to agriculturist members quickly?

(*b*) If there be delays, where do they occur; is it in the society, or the union or the central bank?

(*c*) How do you propose to minimize the delays and ensure the prompt supply of advances to members of societies?

63. (*a*) Is the system of forecast loans popular in societies and, if not, what are the difficulties felt in fixing normal credits for members annually and popularizing the system of forecast loans? Is not such an arrangement necessary to regulate the credit of members and prevent over-financing?

(*b*) By whom and on what basis should the normal credits for each member be fixed?

64. Do you think it necessary or desirable that a system of cash-credit in place of fixed-period loans to members of societies can, with safety, be tried in select areas through a closer co-ordination of work between the central bank, union and the societies?

65. (*a*) Do you agree with the view that the credit given to members of agricultural credit societies should be controlled at every stage? (That is to say, a loan sanctioned should be disbursed in instalments as the need of members for the purpose for which the loan is granted arises and the loan given should be recovered out of the income obtained by the application of the loan, e.g., if a loan for cultivation expenses is sanctioned the loan should be disbursed in instalments as the cultivation process progresses and the loan should be collected from the sale-proceeds of the produce. For this purpose, the member should execute an agreement to sell the produce through the society or through the sale society to which the primary society is affiliated. If the member is indebted to a credit society or a primary land mortgage bank, the sale society should pay the instalment due to the society or the bank concerned from out of the sale-proceeds of the produce. This sort of controlled credit is sought to be tried through a co-ordination of the work of credit societies, central banks, sale societies and primary land mortgage banks.)

(*b*) Do you think this is possible of general application? Does the position vary with commercial crops and food crops?

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(c) Do you think that this is likely to result in members not bringing their produce to the society for sale in order to avoid having loans compulsorily recovered and if so, what remedies do you suggest to get over this?

(d) What other difficulties, if any, do you expect in the adoption of this scheme and how do you propose to overcome them?

66. Do you think that the property statements are correctly prepared and maintained by village credit societies? What steps do you suggest to ensure that they form a correct record of their assets and liabilities?

OVERDUES—RECONSTRUCTION OF SOCIETIES.

67. What steps do you suggest to speed up the collection of overdue loans in societies? Do you think that any further concessions than those already given to members of societies (such as waiver of penal interest, reduction in the ordinary rates of interest, extension of loans, refixation of instalments, etc.) are necessary to induce repayments?

68. (a) Is it feasible to separate the overdues from the current business of central banks and societies?

(b) Provided there is reasonable prospect of repayment by defaulters out of the profits of agriculture within a period of ten to fifteen years, is it practicable or desirable to scale down the overdue debt with due regard to the financial resources of central banks?

(c) What definite principles do you suggest with regard to such scaling down?

(d) What courses do you recommend for adoption particularly when the funds of the societies concerned are not sufficient to cover the losses resulting from such scaling down. By what agencies and in what manner can the losses be borne?

69. (a) What is your opinion with regard to the departmental execution of decrees and awards in societies? How far has it been helpful in the reduction of overdues? Have you any suggestions to make in this regard?

(b) Have the lands of agricultural credit societies passed into the hands of non-agriculturists during the course of execution proceedings? If so, has such transfer taken place on a large scale?

70. Is it necessary that central banks should be given powers to proceed against individual members of societies under circumstances similar to those referred to in sections 20 and 25 of the Land Mortgage Banks Act?

71. What steps do you suggest for the disposal of lands which have come into the possession of central banks and primary societies in the course of execution of decrees and awards?

72. Are you in favour of an arrangement by which the lands may be handed over to the original owners on a rent-purchase system at a price fixed with reference to the present market conditions, the sale price being paid in a number of instalments extending to fifteen to twenty years at a reasonable rate of interest?

73. In order to ensure the fluidity of funds and to enable the banks to keep up their obligations to depositors, do you suggest that central banks should be helped with funds, to the extent of the value of lands so transferred by the Provincial Bank or Government? Give reasons for your preference?

74. (a) If the Provincial Bank is to finance, how do you propose it can raise the necessary funds?

(b) In the alternative, do you suggest that the Central Land Mortgage Bank may float debentures and finance the central banks to the extent necessary on account of the transfer of the lands to the original owners?

75. What difficulties do you anticipate in this process of transfer and how do you propose to overcome the difficulties?

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76. In order to reduce the overdues, do you think it possible or practicable to insist on the repayment of dues in kind, the central bank arranging for the safe custody and disposal of the produce?

77. In order to ensure the safe custody of the produce and to encourage future operations connected with the storing and selling of the produce of members of societies is it desirable that central banks should hire or construct godowns, from their general funds or loans from Government in areas where primary societies are not able to own them themselves?

78. Have the central banks made any serious attempt to transfer to land mortgage banks the overdues of such of the members as can satisfy their requirements as to the security, repaying capacity, etc.? What are the difficulties felt in this process of transfer and what steps do you suggest to overcome them and to expedite this process?

79. (*a*) What measures do you suggest to avoid the accumulation of overdues in future and to ensure the better working of agricultural credit societies?

(*b*) How far can you arrest the growth of overdues by—

(i) the adoption of a system of forecast loans in societies and the disbursement of loans in instalments as the need is felt by members;

(ii) the strict enforcement of by-laws for the recovery of overdue loans;

(iii) supersession of the panchayat in case of neglect in the matter of recovery of overdues;

(iv) extension of loans only in the event of crop failure or other exceptional circumstances beyond the control of members;

(v) the creation of a legal charge on crops in respect of loans advanced for agricultural purposes by an amendment of section 21 of the Co-operative Societies Act; and

(vi) the treating of a fraudulent breach of the 'charge' as a criminal offence punishable with fine.

80. Is it desirable to make advances to defaulters? What safeguards or restrictions do you like to impose on the grant of loans to defaulters in the primary societies?

Land Mortgage Banks.

81. (*a*) What is the average time taken by the land mortgage banks from the date of application for loans by members to the date of sanction and disbursement and what are the reasons for the delays, if any?

(*b*) What steps do you propose for minimizing or avoiding the delays in the disposal of loan applications by the banks?

82. Can you eliminate any of the several stages through which the loan application has to pass at present consistent with the safety of the working of the banks?

83. (*a*) Do you think that the present rates of interest charged to the ultimate borrowers by the primary land mortgage banks are high when compared with the prevailing rates of interest?

(*b*) Have you any suggestions to make with regard to the cheaper supply of money to the borrowers?

(*c*) What should be the margin between the lending and borrowing rates in the Central Land Mortgage Bank and the primary banks, making provision for reasonable working expenses, reserves and dividend?

84. (*a*) Is it a fact that primary land mortgage banks discourage the issue of small loans?

(*b*) What are the difficulties felt by them in regard to such loans and how can they be met?

(*c*) In view of Government advancing loans to ryots under the Agriculturists Loans (Amendment) Act, is it necessary that land mortgage banks should restrict their business to loans exceeding Rs. 1,000?

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85. (*a*) Most of the loans advanced by the land mortgage banks now are for the discharge of prior debts or redemption of mortgages. Is it possible to extend the scope of utility of the land mortgage banks and advance loans for land improvements, purchase of land and creation of economic holdings?—if so, under what conditions? What special facilities are required from Government or other sources?

(*b*) What precautions do you suggest for advancing loans for these purposes?

86. (*a*) Are the land mortgage banks doing anything in the matter of scaling down of debts and do you consider that they should be given any facilities for the purpose?

(*b*) What suggestions do you make for the co-ordination of work between the land mortgage banks and debt-conciliation boards wherever they are functioning?

87. (*a*) Do you suggest that in the interests of the borrower and the land mortgage banks, the person whose debt is to be paid by the land mortgage bank should serve a period of probation with a primary credit society in order to prove his fitness for such help and should continue to be member of the society even after the liquidation of his prior debt?

(*b*) If a person is a member both of a credit society and a land mortgage bank do you think any conflict of interests between the two institutions has arisen or is likely to arise; and, if so, what arrangements do you suggest to prevent it?

88. (*a*) How far have land mortgage banks relieved the indebtedness of the ryots?

(*b*) In order to relieve rural indebtedness to a larger extent than now, is it desirable to increase the number of land mortgage banks?

(*c*) If so, what should be the maximum area over which a land mortgage bank can effectively operate?

89. (*a*) Is it safe to organize land mortgage banks in dry tracts where there is uncertainty of crops?

(*b*) What safeguards or precautions do you suggest for the starting of banks, if at all, in such areas?

(*c*) If it is not safe to organize such banks, what other co-operative methods do you suggest for the liquidation of prior debts of the agriculturists in such tracts?

90. Is it desirable or necessary to extend the period of loans granted by the land mortgage banks from twenty to thirty years and will it be in the interests of the ultimate borrower?

91. (*a*) Do the members of the primary land mortgage banks repay their instalments from out of their income?

(*b*) In cases where they do not, what is such failure due to?

92. In the interests of the land mortgage banks and the families of their borrowers do you think it is possible or necessary to adopt a scheme of insurance to ensure the repayment of the balance of the loan outstanding in the event of the death of the borrower during the currency of the loan?

93. In addition to the help rendered by land mortgage banks, what other measures do you suggest for the relief of agricultural indebtedness?

94. (*a*) What measures do you suggest to help the agriculturist debtors who cannot fulfil the conditions laid down by the land mortgage banks or Government for obtaining loans for the discharge of their prior debts?

(*b*) What is your opinion on the suggestion for the simplification of insolvency procedure in the case of small rural-debts and arrangements for payment by instalments so as to avoid alienation or sale of land?

(*c*) Is it necessary to provide in any scheme of reduction of agricultural debt that the debtor should not be deprived of such minimum extent of agricultural holdings as may be considered necessary for the maintenance of himself and his family?

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(*d*) With a view to prevent a relapse into indebtedness of debtors who have been reclaimed, what suggestions have you to offer?

95. (*a*) What more facilities than those already given are, in your opinion, necessary for the efficient working of primary land mortgage banks?

(*b*) Do you consider that the fees charged on primary land mortgage banks for the registration of documents and for encumbrance certificates are heavy? What revision, if any, do you suggest?

96. Have you any suggestions to offer to make the Central Land Mortgage Bank independent of Government guarantee in respect of principal of and interest on the debentures floated by it?

Urban Banks and Employees' Societies.

97. Have you any suggestions to offer on the working, constitution and management of urban banks?

98. (*a*) What should be the area of operation of an urban bank? Is it necessary or advantageous to have one urban bank for the whole urban area or to have one independent urban bank for one or more wards of an urban area?

(*b*) Should there be a limit to the number of members to be admitted to an urban bank?

(*c*) Is there any overlapping of jurisdiction of urban banks and other co-operative institutions in big towns and what suggestions do you make to prevent it?

99. (*a*) Is it necessary or desirable to permit urban banks to grant loans on the pledge of produce to ryots (in places where loan and sale societies do not operate) and to small traders and merchants?

(*b*) What restrictions or precautions are necessary?

100. It is suggested that urban banks might lend on the pledge of gold and silver confining their operations to an area of about 10 miles even though the borrowers might be members of other credit societies. Are you in favour of this? What safeguards and precautions do you suggest in such cases?

101. In order to make urban banks more useful do you think it desirable that they should give cash credits, to select petty traders and merchants or others, and if so, under what conditions and terms can such business be carried on?

102. What other kind of co-operative business do you think urban banks can usefully undertake and under what conditions should such business be done?

103. To what extent have employees' societies succeeded in relieving the indebtedness of their members and prevented their resorting to private money-lenders?

104. (*a*) Would you have the employees' societies as mere money-lending institutions? Or, would you like to use them for the purpose of encouraging and promoting thrift and savings and if so what means do you suggest to attain the object?

(*b*) What suggestions have you to make to check the continuous borrowing by the members of employees' societies?

105. (*a*) What effect has the amendment to section 60 of the Civil Procedure Code, restricting attachment of salaries of certain classes of employees had on the working of employees' societies?

(*b*) Do you suggest any relaxation or modification of this provision to facilitate the working of these societies?

(*c*) What measures are necessary to ensure prompt repayment by members of employees' societies including public servants' societies? Do you suggest that Government should authorize pay disbursing officers to compulsorily deduct the dues from the salaries of Government servants concerned?

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Scheduled Classes Societies.

106. (*a*) What are the reasons for the unsatisfactory working of the scheduled classes societies and what suggestions have you to make to improve their working?

(*b*) How far have these societies improved the economic condition of the scheduled classes?

(*c*) Do you think that societies for credit only have been of any use to them? If not, what other types of societies can be formed for them? Is any help necessary from Government?

107. Do you think that it is desirable or necessary that there should be separate societies for the Scheduled Classes? Is it not advisable to admit them into the existing agricultural credit societies and give them all available facilities?

108. If you consider that the scheduled classes societies should continue to function as separate institutions, can they not be affiliated to the local central financing institutions instead of a separate provincial financing body? And, if so, how far and under what conditions is it possible for the central banks to take over the scheduled classes societies and finance and supervise them?

Non-Credit Societies.

109. What steps do you recommend to facilitate the development of non-credit societies of various types? Please state to what types of societies you refer.

110. In what directions can agricultural non-credit societies be organized and developed in the near future? Is there any scope or demand for developing such types of societies?

111. How far is it desirable or possible for co-operative societies to undertake village welfare or reconstruction schemes? How is the cost of such schemes to be met? Do you suggest the formation of separate societies for this purpose? If so, on what lines?

Weavers' Societies.

112. What suggestions do you make on the formation and working of weavers' societies?

113. What are the practical difficulties met with in the working of the societies and what remedies do you suggest to overcome them.

114. Do you agree with the view that the handloom industry has been suffering owing to competition of the mills and if so, what measures do you suggest to minimize or avoid competition?

115. Do you think that there is real difficulty in the marketing of cloths prepared by weavers locally and what suggestions do you make to improve the marketing organization with particular reference to the working of the Provincial Weavers' Society?

116. What do you think of the possibilities of organizing hand-spinning on a co-operative basis?

Artisans' Societies.

117. (*a*) What other kinds of artisans' societies do you suggest? What should be their methods of business and what facilities are required to develop them?

(*b*) Do you think that special arrangements are necessary in any of the artisans' societies for the supply of raw materials, improved appliances and for marketing? If so, what arrangements do you suggest for meeting the needs?

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Cottage Industries and Subsidiary Occupations.

118. (*a*) What are the cottage industries and handicrafts unconnected with farming for which markets are available and which offer definite prospects of success and have a survival value and which in your opinion can be formed on co-operative lines for landless labourers and unemployed classes in the villages?

(*b*) What should be the methods of financing such societies and of marketing the goods produced by them?

(*c*) What help and facilities do they require for successful working?

119. (*a*) What are the subsidiary occupations or industries connected with farming which can, in your opinion, occupy the spare time of the agriculturists and their families and ensure a supplemental income to them?

(*b*) What means do you suggest for encouraging the adoption of such subsidiary industries or occupations?

(*c*) How should they be organized and worked on a co-operative basis?

120. What are the obstacles in the way of expansion on co-operative lines of such industries as bee-keeping, poultry-rearing, fruit-growing, sericulture, rope-making, basket-making, etc.? Have you any suggestions to make to overcome them?

121. Do you think that it is possible to start on a co-operative basis industries connected with the preparation of agricultural produce for consumption, such as oil-pressing, sugar-making, cotton-ginning, rice-hulling, etc.?

122. How far and under what conditions is it possible to start and work co-operative societies such as milk-supply societies, butter and ghee societies?

Marketing and Loan and Sale Societies.

123. Have you any criticism to offer on the general working and achievements of loan and sale societies in the Province?

124. What are the reasons for the sale societies confining themselves mostly to the issue of loans on the pledge of produce and for their not developing marketing activities?

125. What are the facilities and measures necessary to stimulate the marketing of produce through sale societies with special reference to important crops like cotton, groundnut, paddy, tobacco, coconut, etc.?

126. What are your views on the following aspects of the working of sale societies:—

(*a*) Area of operations;

(*b*) borrowing and lending rates and margin necessary for working expenses with special reference to competition, if any, from commercial banks; and

(*c*) maximum loan that may be advanced on the pledge of produce to members?

127. Is the help now rendered by Government by way of—

(*a*) grant of subsidies to smaller sale societies (which have issued loans not exceeding Rs. 75,000 in a year or earned a gross profit of not more than Rs. 100);

(*b*) loan of services of inspectors for bigger societies on condition that they meet 25 per cent of the cost during the first two years and 50 per cent during the third and fourth year, 75 per cent in the fifth and sixth year and fully thereafter; and

(*c*) free grant of 25 per cent of the estimated cost of construction of godowns put by sale societies;

adequate and for what period is such help necessary?

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128. Are the facilities for the storage of produce adequate? What difficulties, if any, are felt by sale societies in this regard and in obtaining Government loans for construction of godowns?

129. Do you think that in the present methods of agricultural production, pooling and grading of produce are possible or desirable?

130. Do you think that it is advisable and necessary that in order to promote marketing activities of sale societies and producers' societies and ensure better results, the entire marketing staff or only the marketing staff for 'development' now working under the Director of Agriculture should be transferred to the Co-operative Department and carry on the work under the direction and control of the Registrar?

NOTE.—One Provincial Marketing Officer and four Assistant Marketing Officers are at present working under the Director of Agriculture; of the four Assistants, three are engaged in survey work and their pay and that of the Provincial Marketing Officer are met by the Central Government. The fourth Assistant Marketing Officer is intended to carry on development work, i.e., formation of producers' and marketing societies and help the co-operative sale societies in marketing their produce.

Colonization Societies.

131. In view of the rapid increase in population and the consequent need for increased agricultural production, do you think it desirable and feasible to form agricultural colonies on a co-operative basis (wherever large tracts of uncultivated waste lands are available) and to settle on them landless men, depressed classes or backward communities or educated unemployed with agricultural bias?

132. What should be the conditions under which such colonies may be formed and what facilities and concessions are required to promote them?

Women's Societies.

133. To what extent are women taking part in the development of co-operation and is there scope for their playing a more important part in it than now?

134. Is there a need for separate societies for women and what should the functions of such societies be in your opinion?

135. (*a*) Can societies for poorer and lower middle classes be organized to provide them with facilities for saving and to enable them to take up some subsidiary occupations?

(*b*) What subsidiary occupations would you recommend?

(*c*) Do you think it necessary to appoint full-time women inspectresses for organization and supervision of societies for women? What further facilities do the societies require?

Co-operative Insurance of Cattle and Crops.

136. Would you encourage the insurance of cattle and crops? If so, do you suggest the formation of co-operative societies for this purpose? On what lines should they be formed?

Better Living Societies.

137. To what extent have better living societies succeeded in achieving their objects? Have you any suggestions to make to promote their working?

SUPERVISION AND INSTRUCTION.

138. Are you satisfied with the working of the local supervising unions? Is the supervision of the work of co-operative societies by the governing body of the unions and the supervisory staff adequate and efficient? If not, to what is the failure due?

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139. Do you suggest any change or modification in the present arrangement of supervision by supervising unions assisted and controlled by central banks; and to what extent may the supervision be supplemented or strengthened or replaced by a further agency?

140. (*a*) What is your opinion of the present constitution of supervising unions?

(*b*) Are you in favour of nominations of influential local or other men representing the banks on the governing body of the unions to increase the efficiency of the working of the unions?

141. What is your opinion on the suggestion that a supervisor should serve as the Secretary of the union?

142. (*a*) Do you think that the executive officers appointed by the central banks are effectively controlling the work of the supervisors and improving the tone of supervision? Is it practicable and desirable to put the cadre of the executive officers on a provincial or regional basis?

(*b*) Have they got enough powers of disciplinary control over the field-staff and if not, what powers should be given to them?

143. Are the funds for supervision adequate? If not, how should they be augmented or supplemented?

144. Are the present organization and working of linguistic federations and the Provincial Co-operative Union satisfactory and are the objects for which these were created fully achieved? If not, what suggestions have you to make in this regard?

145. Are the present agencies engaged in co-operative propaganda and education adequate and satisfactory and what suggestions would you make to improve or strengthen the system of co-operative education for all classes of men engaged in the movement?

146. Is the existing provision for the education of panchayatdars and members of societies adequate? If not, what alternative or additional arrangements do you suggest?

147. (*a*) Is the present system of the central institute and the peripatetic institutes for the education of the co-operaive employees—official and non-official—adequate? If not, what changes do you propose?

(*b*) Do you favour separating them or substituting them by a system of unified training?

Audit.

148. Is the present system of audit satisfactory and the present scale of fees equitable? Does it work hardship on certain types of societies?

149. Are you in favour of audit of societies and banks, which are now levied fees, being done only by Government staff or will you give the societies concerned option to employ private auditors either generally or from a panel of auditors selected by the Registrar? If you are in favour of giving such option, what are the methods which you suggest by which the Registrar can control the private auditors and their work? Are you in favour of a triennial check by Government staff of the work done by private auditors, the cost of such triennial audit being met by societies?

150. If you are in favour of Government employing better qualified agency for audit, what scale of fees do you recommend?

151. Do you think that it is necessary that the auditing staff should be separated from the general administrative work and constituted into a separate branch?

Liquidation and Arbitration.

152. Have you any suggestions to make to expedite the work in liquidated societies?

153. Is it desirable to appoint persons other than departmental officers as liquidators of societies, and, if so, what special safeguards or facilities are necessary; and how is their remuneration to be fixed?

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154. Have there been any cases of misapplication of surplus funds of liquidated societies entrusted to trustees? If so, how can such abuses be effectively prevented?

155. Have you any suggestions to make with regard to the disposal of lands coming into the hands of liquidators?

156. Are the present arrangements with regard to selection of arbitrators satisfactory? Is it necessary that arbitrators should be appointed from independent men with legal knowledge?

157. Do the present fees charged for arbitration and liquidation proceedings require revision to meet the costs?

Supersession.

158. In cases where supersession of committees under section 43 of the Co-operative Societies Act was resorted to, can you say from your personal knowledge whether or not the affairs of the institutions concerned generally improved?

159. Is it not desirable or necessary that when the affairs of a society go wrong or when the management is torn by factions and its harmonious working is rendered difficult or impossible and when its financial condition is such that it does not warrant liquidation, an effort may be made to pull up matters by superseding its committee for a while? In such cases can you suggest any other remedy?

160. In cases where the bad condition of the societies is due to one or more individuals in the committee, is it not desirable to provide for their removal instead of superseding the entire committee?

Miscellaneous.

161. (*a*) What is your opinion on the suggestion that Junior Inspectors of Co-operative Societies other than those employed for audit and for the supervision of loan and sale societies, may be redistributed and posted on a territorial basis instead of on a functional basis as at present?

(*b*) Do you think that this will result in quick despatch of work and efficiency of service?

162. Do you think that the progress and expansion of the movement has been retarded or has suffered in districts which are in charge of Assistant Registrars (for example, West Godavari, Chittoor, Kurnool, etc.)? Is there need to create them into Deputy Registrars' charges?

163. Do you consider that in order to ensure greater supervision over the district co-operative officers and the intensive development of the movement, it is desirable to create two divisions for the Presidency and appoint a Joint Registrar for each division?

164. Do you think that any changes are necessary in the provisions of the Co-operative Societies Act and the rules framed thereunder to facilitate the working of societies?

165. Do you suggest the creation of an Advisory Board to advise the Registrar on all important matters of policy touching the movement? If so, what should be the composition of such a Board?

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